

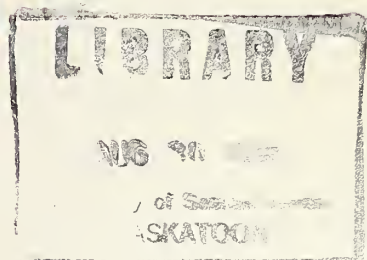


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1982

1982 manitoba budget address

The Honourable Victor Schroeder, Minister of Finance

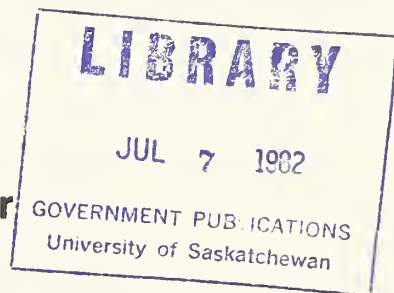


**1982
MANITOBA
BUDGET ADDRESS**



**Honourable Vic Schroeder
Minister of Finance**

May 11, 1982



1982 MANITOBA BUDGET ADDRESS
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1982 Manitoba Budget

INTRODUCTION

Mr. Speaker:

It is an honour for me to present our new Government's first Budget to the Legislature and to the people of Manitoba.

This Budget has two main goals:

First - to help sustain and strengthen our economy during one of the most difficult periods Manitoba and Canada have faced in decades -- to underpin our economic foundations, to make certain we can take early advantage of a national recovery when it takes place, and

Second - within our limited resources, to provide as much protection and assistance as we can to relieve Manitobans of the worst effects of national conditions and national policies.

Mr. Speaker...the circumstances underlying this Budget are no secret to the residents of this Province:

- Canada is in the most serious recession this country has experienced in several decades.
- Last month, more than 1.2 million Canadians were unemployed.

- Punitive interest rates have all but choked off new investment, and are systematically weakening virtually every sector of our economy.
- Here, in Manitoba, with only a few exceptions, we have been at...or close to...the bottom of most economic comparisons for the past several years, and
- Now, this year...at a time when we can least afford it...we have been hit the hardest of any province in Canada by a series of cutbacks in federal transfer payments which are unprecedented in scale.

These circumstances have presented us with hard choices...and we have had to make some very hard decisions.

We believe they are responsible decisions...the right decisions for the future of Manitoba.

This Budget aims to be fair and balanced -- securing needed revenue as equitably as possible, while providing significant added assistance, through investment in the future productive potential of the Province, and through tax reductions to a large number of Manitobans. And, this Budget seeks to establish a financial base for a program of needed public investments in the years ahead -- to enhance our quality of life and help secure our opportunities for economic development in the longer term.

Thousands of Manitobans offered their views and suggestions about this Budget, individually or through their organizations. That consultation proved most helpful. It communicated the widespread feeling that our Province and nation are passing through a violent economic

storm. My colleagues and I are striving to help Manitoba weather that storm with minimal damage, for the time when clear sailing is possible once more.

From our consultations, it became clear that:

The people of Manitoba want a Government which is prepared to offer cooperative and constructive economic leadership when it is needed...not to control Manitoba's development, or to force growth at any cost...but to help marshall, creatively, the many strengths of our mixed economy in the interests of stable, long-term expansion,

and

They want a Government which genuinely cares about people and their needs...and places human concerns of justice and equity above all other priorities.

That has always been the guiding principle and strength of the New Democratic Party.

THE ECONOMY -- RECENT DEVELOPMENTS AND OUTLOOK

In the last half-decade, Manitoba had the dubious distinction of recording:

- the lowest increase in real output of any province;
- the smallest growth in investment of any province, and
- the worst rate of job creation of any province.

The housing sector has come close to a standstill. There has been a net loss in population. And, in the last two years, business bankruptcies have led the nation in percentage growth.

Some of the reasons were outlined five years ago in the Budget presented by the Honourable Saul Miller. Unfortunately, his statement was prophetic. He said:

"...We are under no illusions about the difficulties our Province faces in the years ahead. Much of what we have achieved in the areas of equitable taxation and the expansion of vital public services could be wiped out at the stroke of a pen, or be allowed to wither away under a government which professes to support our programs, but is not really committed to the principles of equity and social justice. And, many of our economic development gains could also be lost through inaction under an administration which believed that even when people's livelihoods are being threatened, the only appropriate role for a provincial government is to grant tax concessions to large corporations, and then to stand aside and do as little as possible, leaving it to so-called market forces to do what they will."

But...that is past history.

Of course, a significant portion of our Province's economic difficulties can be traced directly to the economic and interest rate policies of the federal government, and to the severe recession arising from United States economic policies.

As Premier Pawley pointed out at the First Ministers' Conference on the Economy in February, the blunt instruments of neo-conservatism -- arbitrary cutbacks and punitive interest rates -- have failed disastrously everywhere they have been tried...and have caused the worst recession in this country in decades.

But, statistics do not provide an accurate picture of the impact of economic stagnation on individual Manitobans and their families. The hardship...and the cost...simply cannot be measured.

High interest rates have discouraged large and small businesses from making new investment. They have created a vicious cost-price squeeze for farmers. Home ownership has become impossible for a large number of young Manitobans, and as a result, residential construction has declined sharply.

Here, and in every other province, the economic situation is a cause of discouragement. Our Government stands committed to measures to foster a strong, independent Canadian economy, including a made-in-Canada interest rate policy.

I do not believe that the American and Canadian governments can persist in their present policies for an indefinite period. I hope they will shift soon to a saner course of action.

Manitoba cannot insulate itself from major national and international economic problems, but our Government has acted to protect Manitobans from the worst effects of this difficult situation.

To help offset economic and financial pressures and to help protect the jobs of Manitobans, we have undertaken the following important initiatives:

- ° Our \$23 million interest rate relief program is now in place...to provide assistance to homeowners, farmers and small business operators.
- ° New job creation programs have been announced to help stimulate employment in the short-run, especially for students this summer.
- ° A new residential rent control program has been introduced.
- ° Minimum wages are being increased to help maintain the standard of living for our lowest paid workers.
- ° Major increases in assistance to municipal governments and school divisions have been provided, to ease the property tax burden.
- ° An important increase in Pensioners' School Tax Assistance was announced recently.
- ° The Hydro rate freeze has been continued for a fourth consecutive year.
- ° \$17.5 million is being provided for Beef Income Stabilization.
- ° University tuition fees and community college fees have been frozen, and student aid has been improved.

Furthermore, Supplementary Estimates that I will be introducing tonight also include:

- ° \$758,900 for the Department of Health to help finance expansion of the Children's Dental Program.
- ° \$4.3 million to cover interest forgiveness for the credit unions and caisses populaires and for Canadian Cooperative Implements Limited.
- ° \$2 million for the Department of Education to assist in special needs programming for Winnipeg School Division #1.
- ° \$100,000 for the Department of Labour and Manpower for the Labour Education Centre, and
- ° \$3.4 million for the Department of Highways and Transportation to purchase a CL215 water bomber and finance other air service costs.

INVESTMENT IN MANITOBA

The Manitoba economy has great potential and...with cooperation between a strong private sector and an active public sector...we believe it will be possible to return to a solid and relatively stable growth track and to help ensure the benefits of that growth are distributed fairly.

It is vitally important that provincial government stimulus takes place to protect our basic strengths and enhance our ability to take advantage of national economic recovery, when it comes.

- ° We are moving ahead with the federal government and the City of Winnipeg in core area renewal...and we are making every effort to complete a new northern development agreement with the Government of Canada as soon as possible.

- ° Negotiations are also proceeding actively with the Governments of Alberta and Saskatchewan on the Western Intertie. It is hoped that an agreement will be reached this summer to permit the start up of the Limestone Generating Station. In addition, we are continuing to pursue new markets to the south of Manitoba.

While the current recession has led to inventory buildups in a number of resource industries...and temporarily discouraged new investment...we intend to move forward with negotiations on a number of other major projects, such as expansion of the Manfor complex. Also, we are proceeding in discussions with a number of interested companies regarding the long-term feasibility of viable aluminum smelter operations and potash developments in Manitoba.

- ° Health care facilities are being expanded under a stepped-up \$69 million construction program this year while plans are proceeding for additional expenditures totalling \$88 million.
- ° The Critical Home Repair Program has been expanded and revitalized.
- ° About \$5 million will be spent on law courts construction during the year, part of a total program of around \$26 million.
- ° Last week, elements of a new \$1 million Forest Renewal Program were announced for the Department of Natural Resources.

Tonight, I am announcing over \$60 million in additional, major economic initiatives which demonstrate our belief in Manitoba's great future:

- ° First -- a \$10 million Special Appropriation for Job Creation in the Supplementary Estimates.

We expect approximately \$4 million of this total will be required to expand the Career Internship and Exploration Programs I announced a few weeks ago. Additional amounts will also be dedicated to other programs later in the year. Overall, this authority will give us important flexibility in directing job creation funds where they will have maximum benefit for the Province's economy.

- ° Second -- \$1 million for the Department of Economic Development -- to provide initial authority to help mobilize venture capital for promising and innovative firms, mainly in the manufacturing and processing sector. This addresses a long-standing concern of Manitoba businesses.
- ° Third -- \$1 million will be provided for the expansion of work activity programs in the Department of Community Services and Corrections.

I will also table capital estimates which include \$50 million for the Manitoba Housing and Renewal Corporation to undertake an important set of new initiatives. Construction priorities will include both rental and owner-occupied housing. Further details will be announced by the Minister responsible for the Housing and Renewal Corporation.

The initiatives I have described are only part of a substantially-expanded public sector capital expenditure program for the 1982/83 fiscal year.

In total, we estimate that the combined capital expenditures of government Departments and Crown Corporations will exceed \$700 million.

This is by far the single, largest contribution to Manitoba's development -- a contribution that improves the quality of life, the economic structure and, ultimately, the productive capacity of this Province.

Mr. Speaker...I am pleased to say that this is an increase of about \$200 million or 40% -- a vital investment in the future of Manitoba ...much of it stimulating new employment and helping, in an important way, to protect existing jobs.

The capital estimates also include:

- \$106.8 million for Manitoba Hydro to help finance a total capital program estimated at about \$141 million.
- \$44 million for the Agricultural Credit Corporation to supplement the \$26 million authority already included in the preliminary Loan Act.
- \$12 million for Manitoba Forestry Resources Limited, and
- \$25 million for assistance to the Credit Union Stabilization Fund and \$4.5 million to Le Fonds de Securite.

Mr. Speaker...while most forecasters are revising their 1982 predictions downward -- and surrounding them with more and more caveats -- the majority are still projecting at least a limited recovery for the Canadian economy in 1983. Obviously, we hope they are right, and that another surge of interest rate pressure from the United States will not halt the recovery in its tracks.

In the meantime -- as I said earlier -- we have a clear responsibility to provide sustaining support for our own economy to ensure that, when national conditions improve, we in Manitoba will be in a position to move forward strongly.

FISCAL POSITION: 1981/82 -- PRELIMINARY FINAL RESULTS

Mr. Speaker...in its Budget last year, the former government projected that its deficit at the end of the 1981/82 fiscal year would be approximately \$219.8 million. But, when it left office in November, it estimated that the deficit was likely to rise to about \$252.8 million.

As Members will recall, the financial statement for the third quarter forecast the year-end deficit at approximately \$264.3 million.

We expect an unaudited year-end statement to be completed and published in June, but "preliminary final" information indicates that actual expenditures for the year totalled about \$2,432 million, or \$51 million above the main and supplementary estimates, while revenues totalled around \$2,180 million, or \$19 million more than the "print". This left a year-end deficit of about \$252 million.

Without the \$25 million, one-time Special Municipal Loan Fund adjustment we have discussed in the House before, last year's deficit would have been around \$277 million.

FISCAL POSITION: 1982/83 -- REVENUE TRENDS AND FEDERAL CUTBACKS

Sluggish revenue growth, resulting from a sluggish economy, was a major cause of the 1981 deficit. The same trend was evident in preliminary 1982/83 forecasts.

Then...we received the details of Mr. MacEachen's plans to cut back federal transfer payments.

Members are already familiar with the numbers; they have not changed appreciably since my statement to the House on March 22nd.

While federal transitional adjustments have helped reduce the impact of the cuts, primarily in 1982/83, we continue to face by far the largest reductions of any province, on a per capita basis, over the next five years -- a gross loss, before so-called tax offsets, of \$828 million, and a net loss, after taking those offsets into account, of \$719 million -- or about \$2,800 for a family of four. Much of that loss, of course, is attributable to a major change in the equalization formula -- a change which is patently unfair to Manitoba and inconsistent with the equalization principle which is now a part of our Constitution.

The revenue estimates will help show the severity of the cutbacks. In last year's estimates, federal transfers were expected to account for 40.7% of total revenues. This year, the percentage is 36.3% -- the lowest since 1974/75.

I should say here that my colleagues and I very much appreciated the strong bipartisan support our Province's efforts to reverse the cutbacks received from Manitoba M.P.'s in the New Democratic and Progressive Conservative Parties.

We have not given up our attempt to seek a fair deal for Manitoba and Manitoba taxpayers from the federal government. We believe there are further options which can be explored to increase transitional assistance to our Province, and we intend to pursue those options. At the same time though, we remain concerned about the prospect of further cutbacks in other areas -- particularly reductions in federal financial support for provincial post-secondary expenditures starting in the 1983/84 fiscal year.

TAXATION POLICY

If the federal cutbacks were for one year only...if we felt they would be restored in future years...we could perhaps accept the revenue loss without some compensating adjustment.

But...clearly, we aren't looking at a short-term situation; we are facing a permanent, ongoing cutback by the federal government...and, in our view, it is essential that we make up most, if not all of the lost revenue.

Members should know the guidelines we followed in evaluating the options open to us:

- First, and most important, we felt the measures must be fair. Our Government is firmly committed to the principle of ability to pay in taxation.
- Secondly, we recognized that any new measures must fit within a tax structure which is reasonably comparable with that of other provinces. That is an important corollary to the equity principle, and it is important to our competitive position as well.
- Thirdly, we sought measures which would have minimal negative effect on our economy. There is no doubt that added taxes represent added costs for some individuals and groups of taxpayers, but it is also true that offsets are possible -- and that the rechanneling of the revenues will have a positive economic impact.

Following is a summary of the changes we now propose.

There are four main areas where taxes will be increased and four where they will be reduced.

1. Levy for Health and Post-Secondary Education

For a number of years, Manitoba's retail sales tax rate has been among the lowest in Canada. For that reason, there has been much speculation that our Government would raise the sales tax rate...to 7%, as in Ontario...or to 8%, as in Quebec and New Brunswick. The rates in Nova Scotia and Prince Edward Island are 10%, and Newfoundland applies an 11% sales tax.

A sales tax increase was considered. Clearly, it would provide substantial additional revenues. However, its impact tends to be somewhat regressive and unfair to most Manitobans. An increase would hit hardest at those living on low and fixed incomes, such as pensioners.

Furthermore, the Government is concerned about the economic impact of a sales tax increase on the current state of the provincial economy. Similar concerns have been expressed by organizations such as the Manitoba Chambers of Commerce, and the Manitoba Federation of Labour...and there have also been indications of potential problems in border communities. The Canadian Manufacturers' Association has expressed concern, too, about the impact of an increase in the sales tax on production machinery, and similar concerns exist with regard to building materials.

We naturally wanted to explore alternatives to the sales tax. We were particularly interested in alternative mechanisms for financing health care and post-secondary education, since those two services receive the largest share of our Budget and are most directly affected by federal cutbacks.

Of course, perhaps the most familiar approach to health financing is the premium system -- which is still used in Ontario, Alberta and British Columbia.

But...the reimposition of premiums in this Province is a deterrent to health care our Government will never countenance.

The Province of Quebec, too, rejected the premium approach...but for many years has financed its health care programs through a system of employer contributions based on a percentage of the total compensation the employer pays. Currently, the Quebec health contribution rate is 3%. We propose to introduce a similar Levy for Health and Post-secondary Education in Manitoba, but at half the Quebec rate -- that is, 1.5%.

The new Levy for Health and Post-secondary Education will take effect on July 1 for all employers except municipal governments and school divisions, whose budgets are already set for the year. Those employers will also be expected to pay the Levy beginning January 1, 1983, but their payments will be offset -- and probably more than offset -- by improved direct support to be announced in due course.

For those employers subject to income taxation, a positive feature of the new Levy will be its deductibility in calculating federal and provincial income tax liabilities. This means, in effect, that a significant part of the impact of the Levy will be borne by the federal Treasury. Indeed, for large corporations, about 53 percent of the Levy will be directly offset by reduced federal and provincial income tax liabilities.

Later, I will table a background paper with further details on the Levy for Health and Post-secondary Education. It will demonstrate clearly that this measure is a significantly better choice for Manitoba than a sales tax increase at this time -- in terms of both equity and economic

impact. We believe that it is faithful to Manitobans' desire for the cost of public services to be shared fairly by every sector of the economy. The effects are spread widely, yet those on fixed incomes will not be affected.

This Levy is expected to yield some \$70 million in 1982/83 and \$110 million in a full twelve months.

2. High-Income Surtax

In line with the principle of ability-to-pay, we also propose a special surtax on Manitobans with higher incomes.

This surtax will apply on taxable income in excess of \$25,000 -- equivalent to a gross income level for a family of four of above \$34,000 -- and probably closer to \$37,000 or more, when average pension and other deductions are assumed. In no case will the surtax exceed 3.7% of taxable income. Our estimates indicate that only about 10% of Manitoba taxfilers will be affected by this measure. It is important to note that because of federal marginal rate reductions and indexing, total 1982 income tax liabilities -- with the surtax included -- will still be lower than those in 1981 at all income levels.

It is also worth noting that the reduction in the top marginal rates, combined with indexing, will reduce Manitoba's potential revenues by about \$54 million in 1982/83. In contrast, the surtax is expected to yield approximately \$16.2 million in additional revenues in the current fiscal year, leaving Manitobans with a net reduction in their provincial income taxes -- when these three measures are considered together -- of close to \$40 million.

3. Financial Institutions

Bank Tax - Members will be aware that in its Budget earlier this year, the Province of British Columbia applied a special tax on the chartered banks to ensure that those institutions -- which have profitted significantly from the federal government's high interest rate policy -- are paying a fairer share of the costs of various relief programs and general public services. Effective July 1, our Province will join B.C. in applying a special 2% tax on banks under the corporation capital tax. We expect this change to increase revenues by about \$2.6 million this year.

Insurance Corporations - At present, five provinces levy 3% taxes on premium revenue from insurance companies' sales of policies other than life or sickness and accident insurance. We will join these provinces by raising the Manitoba rate from 2% to 3% effective for the 1982 taxation year. This measure will yield about \$2.8 million in added revenues this year.

4. Consumption Taxes

Diesel Fuel - Most provinces have traditionally taxed diesel fuel at significantly higher rates than gasoline for reasons of energy content, and Manitoba also applied a differential for many years. However, when the ad valorem tax was introduced in 1980, the difference was removed. Effective June 1, we intend to restore the previous differential by setting the rate of tax on motive fuel at 15% more than the rate on gasoline. In total, this measure is expected to yield approximately \$6.5 million in added revenue this year.

Alcohol and Tobacco - Effective midnight, May 30, the Manitoba tobacco tax rate will be increased by 0.4¢ to 1.8¢ per cigarette or by 10¢ per

pack of 25. This measure will provide additional revenues of approximately \$7.5 million this year. We will also direct the Manitoba Liquor Control Commission to adjust its mark-ups in such a way as to ensure that an additional \$20 million over and above normal revenue growth will be available for the Consolidated Fund of the Province.

Mr. Speaker...in the face of federal cutbacks, these adjustments are essential to the fiscal integrity of Manitoba. However, if the federal government were to change its policy and to restore the cuts, we would certainly reassess the need for these measures.

In the coming year we will also be reviewing the Property and Cost of Living Tax Credit Programs to evaluate the impact of the significant changes made by the former government. Improvements in these programs can be expected to follow that review.

During our assessment of various taxation options, we also looked at a number of "tax expenditures" -- that is, the sometimes-overlooked revenue effects of tax exemptions and other provisions which currently apply. A growing number of jurisdictions, including the federal government, are now publishing estimates of tax expenditures on a regular basis and we may start doing so as well, in recognition of the fact that these measures should also be subject to normal review, alongside more "visible" budgetary items.

TAX REDUCTIONS

Mr. Speaker...I said earlier that our Government will also propose a number of tax reductions and related assistance -- measures both for individual Manitoba consumers and for our all-important small business sector.

1. SMALL BUSINESS ASSISTANCE

Higher Exemption - Corporation Capital Tax

- ° First, the corporation capital tax exemption for small business will be raised by one-third from \$750,000 to \$1 million. This is expected to reduce revenues by about \$400,000 in 1982/83 and to eliminate tax liabilities for some 300 Manitoba businesses.

Increased Vendors' Commissions

- ° Secondly, vendors' commissions under the Retail Sales Tax Act will be increased to provide about \$1 million a year in additional assistance that will be of major benefit to smaller retailers.

Reduced Small Business Income Tax Rate

- ° Finally, effective for the 1982 taxation year, we propose to reduce the Manitoba income tax rate on small businesses from 11% to 10% of taxable income -- currently the same as in our two neighbouring provinces. This measure will reduce revenues by about \$3.5 million in the current year.

Overall, Mr. Speaker, these measures, along with the new venture capital authority I announced earlier, should be of significant benefit to a great many small businesses in this Province.

2. SALES TAX REDUCTIONS

I have already made it clear that we decided not to increase the 5% sales tax rate. In fact, I am pleased to announce that we intend to implement a series of sales tax reductions effective at midnight, tonight.

First, the exemption for energy conservation products will be expanded to include insulated doors and loading dock door seals.

Secondly, existing exemptions for fire trucks and related equipment will be extended to all purchasers.

Thirdly, the provisions related to refunds on vehicle transactions will be revised to provide further assistance to car buyers.

And finally, the exemption for restaurant meals will be raised...not by 25%, as was suggested in the resolution recently put before the House by the Member for Sturgeon Creek...but by 50% -- from \$4.00 to \$6.00.

In total, it is estimated that these reductions will lower retail sales tax revenue by some \$1.2 million in the current year and approximately \$1.6 million in a full twelve months.

3. CAPITAL GAINS TAX REBATE FOR FARMERS

I am also pleased to announce that legislation will shortly be introduced to fulfill another of our Government's election commitments -- to remove provincial capital gains tax on sales of family farms.

The program will be effective for the 1982 taxation year and will apply up to a maximum gain of \$200,000.

In total it is expected that this measure will reduce income tax revenues by somewhat less than \$1 million annually.

4. GASOLINE TAX FREEZE

The price of gasoline increased by about one-third since early 1981 and this has caused particular problems for northern, rural and suburban Manitobans who must drive longer distances.

I wish to announce that, effective immediately, the gasoline tax rate will be frozen at its current level until the end of this fiscal year. The new diesel fuel rates I announced earlier will also be fixed for the same period.

As a result of the rate freeze, we estimate that Manitoba taxpayers will save about \$6 million on gas tax and \$2.5 million on motive fuel tax which would otherwise be payable in the current year.

In total, these tax adjustments -- the increases and reductions -- are expected to result in a net addition to revenues of about \$113.1 million in the 1982/83 fiscal year.

While some Manitobans will pay more taxes, a great many will also pay less -- in a variety of ways -- while the overall economy will benefit from a tax structure which is balanced and fair -- and supportive of our Province's economic development needs.

BUDGETARY POSITION -- SUMMARY

With the Supplementary Estimates, total provincial budgetary expenditures for the 1982/83 fiscal year are now forecast at approximately \$2,830 million. This represents an increase of about 16.4% over the preliminary actual total for 1981/82.

Again...to place this percentage in perspective, it is worth noting, as I did in tabling the Main Estimates, that the 1981/82 figure was, in fact, more than 18% higher than the total in 1980/81.

On the revenue side...and with the additional funds resulting from the measures I have announced tonight...we now expect the revenues for the Province for the 1982/83 fiscal year to total about \$2,495 million -- approximately \$334.5 million less than estimated expenditures.

This deficit total is closely comparable with last year's, both in terms of its size relative to total expenditures, and in terms of the shares of the current and capital components. At \$251 million, budgetary capital expenditures represent about 75% of the deficit.

FINANCIAL REQUIREMENTS

Mr. Speaker...at the time I introduced the Main Estimates, I also tabled a set of special capital estimates to provide immediate authority for the loan portion of the Emergency Interest Rate Relief Program and for other urgent requirements. That authority totalled \$37.8 million.

This evening, as I indicated earlier, I will table additional capital estimates -- in this case the "main" capital estimates -- totalling \$304.4 million.

We now estimate that our total borrowing requirements for 1982/83 -- including budgetary requirements and the so-called "non-budgetary" capital requirements I have outlined -- will total about \$900 million.

The Canada Pension Plan and various federal government sources should cover approximately \$150 million of this total. The public bond markets will be the source of the remaining requirements. In this connection, we of course regret Alberta's inability to continue its Heritage Fund loans to the other provinces. It appears even that province has not been spared financial problems.

Manitoba has no Heritage Fund, but we do have a substantial heritage -- and real wealth -- in the imaginative and far-sighted public investments undertaken primarily by the governments of Premiers Campbell, Roblin and Schreyer. Our telephone system, our schools and universities, our health facilities, the Winnipeg Floodway, our trunk highways and other provincial roads to markets, Autopac, rural electrification, and, of course, our entire hydro-electric system, have been...and will continue to be...of almost incalculable importance to the productive capability of our economy. If we were to add up the value of these assets, it seems certain they would be found to be worth a great deal more than any formal "Heritage Fund," using almost any reasonable assumptions. Most important, they assure our own economy permanent and growing strength in terms of both physical and human capital.

CONCLUSION

Mr. Speaker...our Government's Budget and Estimates for the 1982/83 fiscal year reflect the difficult situation we found on taking office...and the hard choices we have had to make in order to deal with those problems as best we can.

On November 17, the people of Manitoba made it very clear that:

- They wanted a provincial government that would undertake a responsible economic program of benefit to all Manitobans.
- They wanted to continue enjoying the quality of life that makes Manitoba such a good place to live and work, and
- They wanted the Province to help Manitobans through this period of high interest rates, high prices and increased unemployment.

This mandate helped to guide our Government in making the choices I outlined tonight.

They minimize the added burden on individual taxpayers, while preserving essential services and ensuring that we have the resources and the flexibility to provide economic leadership.

I...personally...am proud of this Budget, and of being a part of a Government which has had the courage to meet its responsibilities...and the human concern to ensure that its decisions are fair and just.

Supplementary Budget Material

SUPPLEMENTARY BUDGET MATERIAL

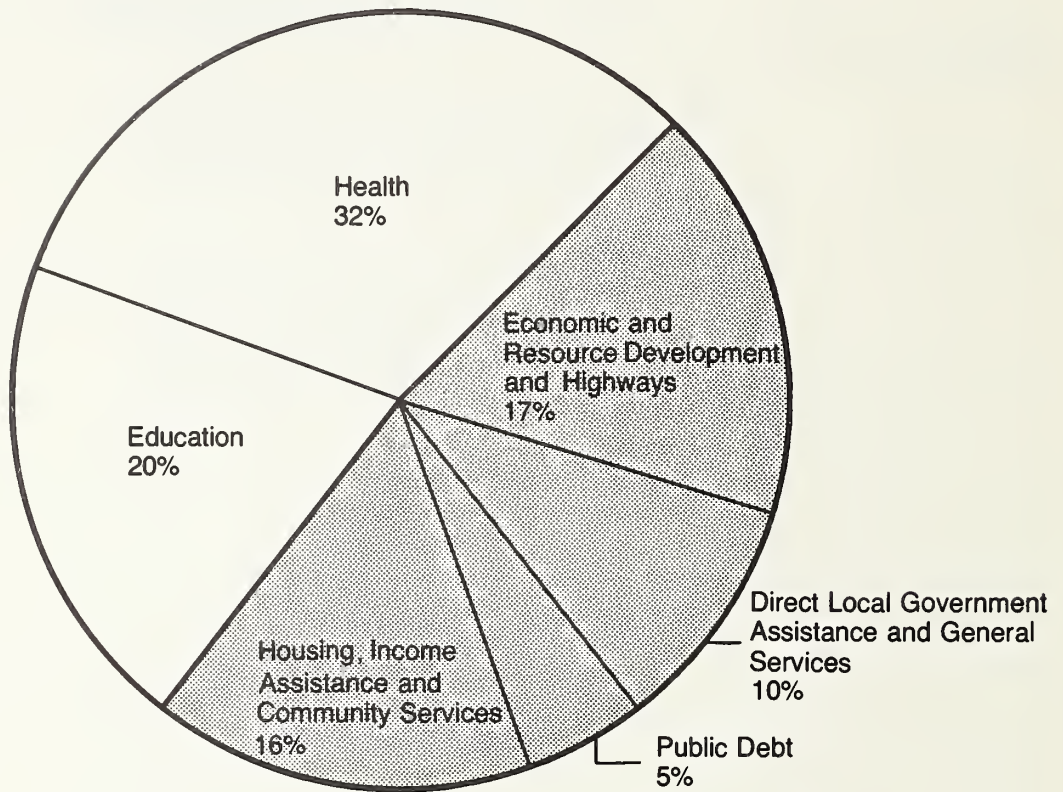
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APPENDIX I

FINANCIAL STATISTICS

Provincial Expenditure Major Categories — 1982/83



— Health and Education 52%
 — Other Programs 48%

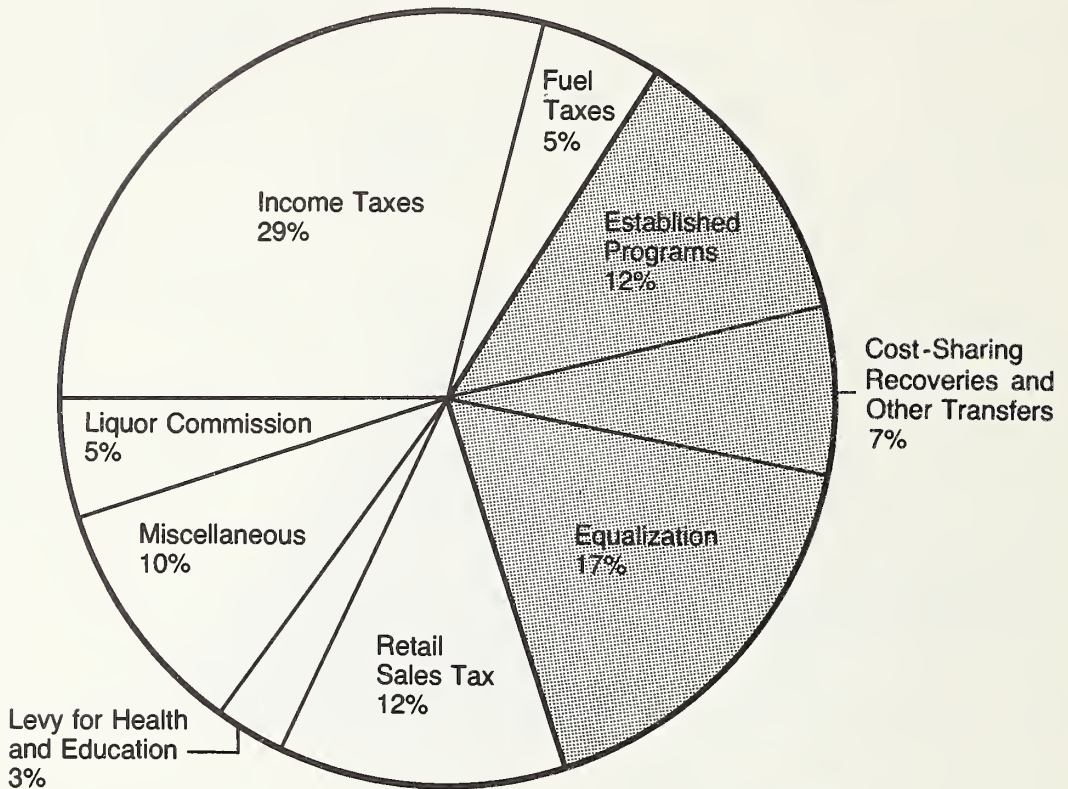
Main and Supplementary Estimates	(\$ Millions)	(%)
Health and Education		
Health	913.9	32
Education	569.0	20
	<u>1,482.9</u>	<u>52</u>
Other Programs		
Housing, Income Assistance and Community Services	452.8	16
Economic and Resource Development and Highways	484.4	17
Direct Local Government Assistance and General Services	282.6	10
Public Debt	127.0	5
	<u>1,346.8</u>	<u>48</u>
Total Expenditures	<u>2,829.8</u>	<u>100</u>

Totals may not add due to rounding.

1982/83 EXPENDITURE ESTIMATES
Main and Supplementary Estimates

	1982/83 Estimate	% of Total
Education	568,951,500	20.1
Health	913,915,100	32.3
Economic & Resource Development and Highways.....	484,414,300	17.1
* Agriculture	\$ 59,634,500	
* Co-operative Development	5,531,400	
* Crown Investments	563,200	
* Cultural Affairs & Historical Resources	13,945,900	
* Economic Development & Tourism	25,109,100	
* Emergency Interest Rate Relief	10,000,000	
* Employment Creation	10,000,000	
* Energy & Mines	11,076,200	
* Highways and Transportation	199,228,300	
* Labour and Manpower	17,312,400	
* Natural Resources	78,400,800	
* Northern Affairs, Environment and Workplace Safety and Health	35,474,200	
* Canada-Manitoba Enabling Vote	11,383,800	
* Hydro Rates Stabilization	<u>6,754,500</u>	
Housing, Income Assistance and Community Services	452,801,500	16.0
* Community Services & Corrections ...	\$251,170,300	
* Finance	164,100,000	
* Manitoba Housing and Renewal Corporation	<u>37,531,200</u>	
Direct Local Government Assistance and General Government Services	282,644,000	10.0
* Legislation	6,021,000	
* Executive Council	3,105,600	
* Attorney-General	56,948,700	
* Civil Service	21,033,800	
* Consumer & Corporate Affairs	5,232,300	
* Fitness, Recreation & Sport	2,553,600	
* Finance	13,686,900	
* Government Services	77,564,300	
* Municipal Affairs	29,980,800	
* Urban Affairs	55,517,000	
* Flood Control & Emergency Expenditures	1,000,000	
* General Salary Increases	10,000,000	
Public Debt	<u>127,030,200</u>	4.5
	<u>\$2,829,756,600</u>	<u>100.0</u>

Provincial Revenue Major Sources — 1982/83



— Own Source Revenue 64%
 — Federal Transfers 36%

	(\$ Millions)	(%)
Own Source Revenue		
Income Taxes	727.2	29
Retail Sales Tax	292.0	12
Fuel Taxes	119.0	5
Liquor Commission	117.5	5
Levy for Health and Education	70.0	3
Miscellaneous	262.8	10
	1,588.5	64
Federal Transfers		
Equalization	431.0	17
Established Programs	287.9	12
Cost-Sharing Recoveries and Other Transfers	187.8	7
	906.8	36
Total Revenues	2,495.2	100

Totals may not add due to rounding.

1982/83 REVENUE ESTIMATES

	1982/83 Estimate	% of Total
Income Taxes	\$ 727,162,000	29.1
° Corporation Income Tax.....	\$145,273,000	
° Individual Income Tax.....	<u>581,889,000</u>	
Manitoba Levies & Collections	620,601,000	25.0
° Insurance Corporations Tax	\$ 13,400,000	
° Corporation Capital Tax	19,700,000	
° Gasoline Tax	85,900,000	
° Levy for Health & Education	70,000,000	
° Mining Tax	10,000,000	
° Motive Fuel Tax	33,100,000	
° Oil and Natural Gas Tax	13,300,000	
° Retail Sales Tax	292,000,000	
° Revenue Act, 1964, Part I	23,000,000	
° Tobacco Tax	44,500,000	
° Other	15,701,000	
Other Revenues	123,215,000	4.9
° Fines & Costs	\$ 5,000,000	
° Land Titles Fees	6,100,000	
° Minerals	1,012,700	
° Petroleum	4,936,600	
° Automobile & Motor Carrier Licences & Fees	27,890,000	
° Drivers' Licences	2,352,000	
° Lands	5,315,700	
° Parks	4,358,400	
° Water Resources	10,340,400	
° Others	55,909,200	
Liquor Control Commission	117,500,000	4.7
Federal Transfers	906,756,300	36.3
Unconditional and General Purpose:		
° National Equalization	\$431,000,000	
° Established Programs Cash Transfer ..	287,925,000	
° Government of Canada Subsidy	2,174,000	
° Reciprocal Taxation Agreement	2,000,000	
° Population Recovery Adjustment Payment	20,000,000	
° Share of Federal Oil Export Tax	<u>1,210,000</u>	
Total Unconditional Transfers	<u>\$744,309,000</u>	
Conditional - Government of Canada - Shared-Cost Receipts:		
° Community Services & Corrections ...	\$ 96,637,000	
° Economic Development & Tourism	8,080,300	
° Education	30,411,600	
° Northern Affairs, Environment & Workplace Safety & Health	10,940,900	
° Other	<u>16,377,500</u>	
Total Conditional Transfers	<u>\$162,447,300</u>	
	<u>\$2,495,234,300</u>	<u>100.0</u>

SUPPLEMENTARY ESTIMATES OF EXPENDITURE
FOR THE FISCAL YEAR ENDING MARCH 31, 1983

<u>APPROPRIATION</u>	<u>SERVICE</u>	<u>YEAR ENDING</u> <u>MARCH 31, 1983</u>
AGRICULTURE (III)		
10. Income Insurance Fund	\$17,500,000	
TOTAL FOR AGRICULTURE		\$17,500,000
ATTORNEY-GENERAL (IV)		
5. Law Courts	\$ 85,000	
(c) Provincial Judges Court:		
(2) Other Expenditures	\$ 85,000	
TOTAL FOR ATTORNEY-GENERAL		\$ 85,000
COMMUNITY SERVICES AND CORRECTIONS (IX)		
5. Rehabilitative Services	\$ 910,400	
(d) Employment Services:		
(4) Work Activity Projects ...	\$ 910,400	
7. Corrections and Probation Services	\$ 85,000	
(d) Probation and Parole Services:		
(3) Program Development	\$ 85,000	
TOTAL FOR COMMUNITY SERVICES AND CORRECTIONS		\$ 995,400
CONSUMER AND CORPORATE AFFAIRS (V)		
2. Consumer Affairs	\$ 475,000	
(a) Salaries	\$ 475,000	
TOTAL FOR CONSUMER AND CORPORATE AFFAIRS		\$ 475,000
CO-OPERATIVE DEVELOPMENT (VI)		
4. Interest Forgiveness	\$ 4,267,100	
(a) Canadian Co-operative Implements		
Limited	\$ 505,800	
(b) Credit Union and Caisse		
Populaire Assistance	3,761,300	
TOTAL FOR CO-OPERATIVE DEVELOPMENT		\$ 4,267,100

APPROPRIATION

SERVICE

YEAR ENDING
MARCH 31, 1983

ECONOMIC DEVELOPMENT AND TOURISM (X)

4. Venture Capital Incentives \$ 1,000,000
TOTAL FOR ECONOMIC DEVELOPMENT AND TOURISM \$ 1,000,000

EDUCATION (XVI)

3. Financial Support - Public Schools \$ 2,000,000
 (a) School Grants and Other
 Assistance \$ 2,000,000
TOTAL FOR EDUCATION \$ 2,000,000

ENERGY AND MINES (XXIII)

4. Acquisition/Construction of Physical Assets \$ 348,000
TOTAL FOR ENERGY AND MINES \$ 348,000

FINANCE (VII)

4. Taxation Division \$ 1,000,000
 (e) Corporation Capital Tax Branch:
 (1) Salaries \$ 300,000
 (2) Other Expenditures 700,000
6. Tax Credit Payments \$ 2,900,000
TOTAL FOR FINANCE \$ 3,900,000

HEALTH (XXI)

3. Community Health Services \$ 758,900
 (h) Dental Services:
 (2) Other Expenditures \$ 758,900
TOTAL FOR HEALTH \$ 758,900

<u>APPROPRIATION</u>	<u>SERVICE</u>	<u>YEAR ENDING</u> <u>MARCH 31, 1983</u>
HIGHWAYS AND TRANSPORTATION (XV)		
7. Air/Radio Services	\$ 208,900	
(a) Salaries	\$ 268,900	
(b) Other Expenditures	740,000	
(c) Less: Recoverable from Other Appropriations	800,000	
8. Acquisition/Construction of Physical Assets	\$ 3,234,400	
(c) Other Projects	\$ 3,234,400	
TOTAL FOR HIGHWAYS AND TRANSPORTATION		\$ 3,443,300
LABOUR AND MANPOWER (XI)		
1. General Administration	\$ 100,000	
(b) Administration:		
(2) Other Expenditures	\$ 100,000	
TOTAL FOR LABOUR AND MANPOWER		\$ 100,000
NATURAL RESOURCES (XII)		
1. Executive Administration	\$ 170,000	
(c) Garrison Diversion Opposition:		
(1) Salaries	\$ 42,000	
(2) Other Expenditures	128,000	
7. Forestry	\$ 1,000,000	
(h) Forestry Renewal Program	\$ 1,000,000	
TOTAL FOR NATURAL RESOURCES		\$ 1,170,000
EMPLOYMENT CREATION (XXIX)		
1. Employment Creation Program	\$10,000,000	
TOTAL FOR EMPLOYMENT CREATION		<u>\$ 10,000,000</u>
TOTAL SUPPLEMENTARY ESTIMATES		<u>\$ 46,042,700</u>

1982/83 CAPITAL AUTHORITY REQUIREMENTS
FOR NON-BUDGETARY PROGRAMS

"SCHEDULE A CAPITAL"

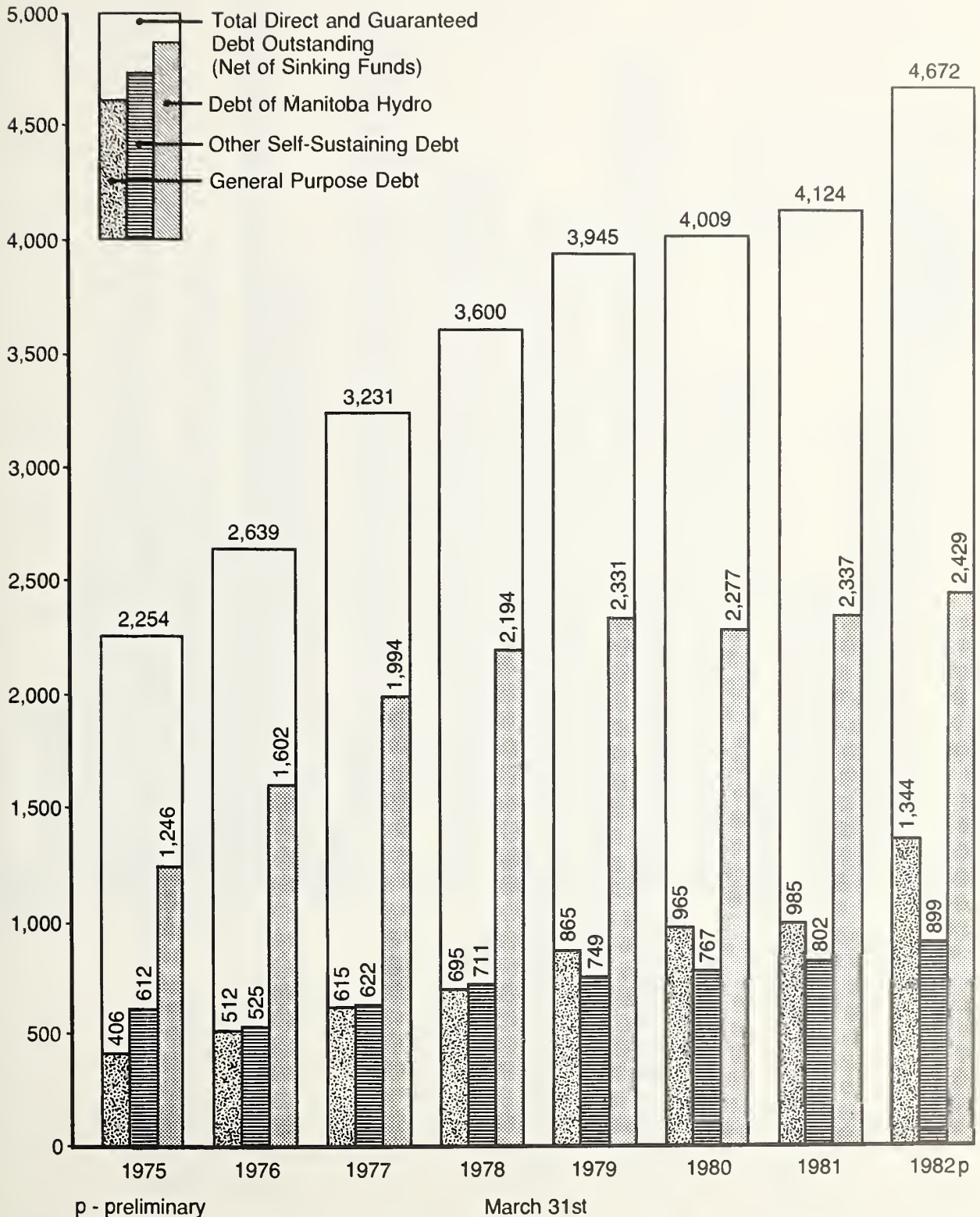
The Manitoba Beef Stabilization Fund	\$ 4,000,000
The Canadian Co-operative Implements Ltd.	2,975,000
Communities Economic Development Fund	2,557,000
Credit Union and Caisse Populaire Assistance	29,500,000
Insulation Loan Program	2,050,000
The Manitoba Agricultural Credit Corporation	44,000,000
Manitoba Forestry Resources Ltd.	12,000,000
The Manitoba Housing and Renewal Corporation	50,000,000
The Manitoba Hydro - Electric Board	106,849,000
The Manitoba Telephone System	48,500,000
The Manitoba Water Services Board	<u>2,000,000</u>
	<u>\$304,431,000</u>

Province of Manitoba
Statement of Valuation and Purpose of Bonds,
Debentures and Other Securities Outstanding
as at March 31, 1982*

(Thousands of Dollars)

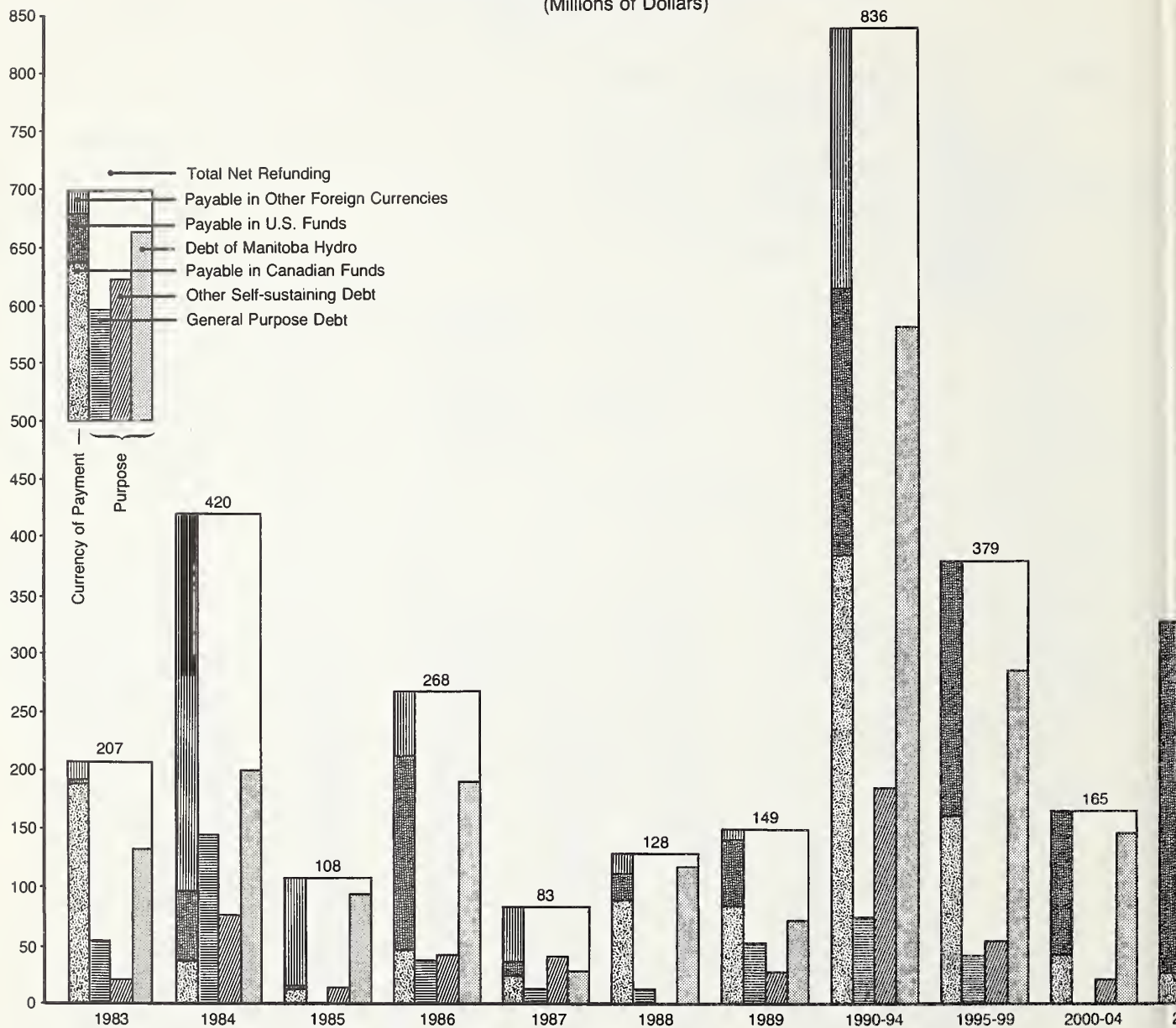
<u>Valuation of Debt</u>	<u>Par Value</u>	<u>Canadian Dollar Equivalent at Date of Issue</u>	<u>Exchange Rate as at March 31, 1982</u>	<u>Canadian Dollar Valuation</u>	<u>For Exch Fluct</u>
Direct:					
Payable in:					
Canadian Dollars	1,674,031	\$1,674,008	\$1.00	\$1,674,008	\$
U.S. Dollars	762,500	863,641	1.2303	938,104	74
Swiss Francs	801,000	406,566	0.6351	508,715	102
European Units of Account (1) .	34,830	42,676	1.7039	59,348	16
Japanese Yen	27,000,000	113,177	0.004958	133,866	20
Deutsche Marks	150,000	67,578	0.5091	76,365	8
Hong Kong Dollars	117,420	26,238	0.2106	24,729	(1)
Total Direct		<u>\$3,193,884</u>		<u>\$3,415,135</u>	<u>\$221</u>
Guaranteed:					
Payable in:					
Canadian Dollars	1,031,066	\$1,031,066	\$1.00	\$1,031,066	\$
U.S. Dollars	926,000	930,904	1.2303	1,139,258	208
Swiss Francs	160,000	56,114	0.6351	101,616	45
Deutsche Marks	65,000	19,903	0.5091	33,092	13
Pounds Sterling	2,680	5,651	2.1918	5,875	
Total Guaranteed		<u>\$2,043,638</u>		<u>\$2,310,907</u>	<u>\$267</u>
Total Direct & Guaranteed Debt		<u>\$5,237,522</u>		<u>\$5,726,042</u>	<u>\$488</u>
Less: Sinking Funds		<u>565,677</u>			
Net Direct & Guaranteed Debt		<u><u>\$4,671,845</u></u>			
<u>Purpose of Debt</u>					
General Government Programs		<u>\$1,617,589</u>		<u>\$1,708,233</u>	<u>\$ 90</u>
Other:					
Manitoba Hydro-Electric Board		\$2,660,252		\$2,995,080	\$334
Manitoba Telephone System		508,671		569,946	61
Manitoba School Capital Financing Authority		215,225		215,225	
Other Crown Corporations		191,628		193,401	1
Federal-Provincial Loan Agreements		14,498		14,498	
Universities		26,253		26,253	
Municipal, Hospital & Other Indebtedness ...		3,406		3,406	
		<u>\$3,619,933</u>		<u>\$4,017,809</u>	<u>\$397</u>
Total Direct and Guaranteed Debt		<u>\$5,237,522</u>		<u>\$5,726,042</u>	<u>\$488</u>
Less: Sinking Funds		<u>565,677</u>			
Net Direct & Guaranteed Debt		<u><u>\$4,671,845</u></u>			

Province of Manitoba Direct and Guaranteed Debt: By Purpose (Millions of Dollars)



Note: The above table indicates the Total Direct and Guaranteed Debt of the Province of Manitoba (after deducting Sinking Funds) based on the Canadian Dollar Equivalent on the date of issue for all foreign debt.

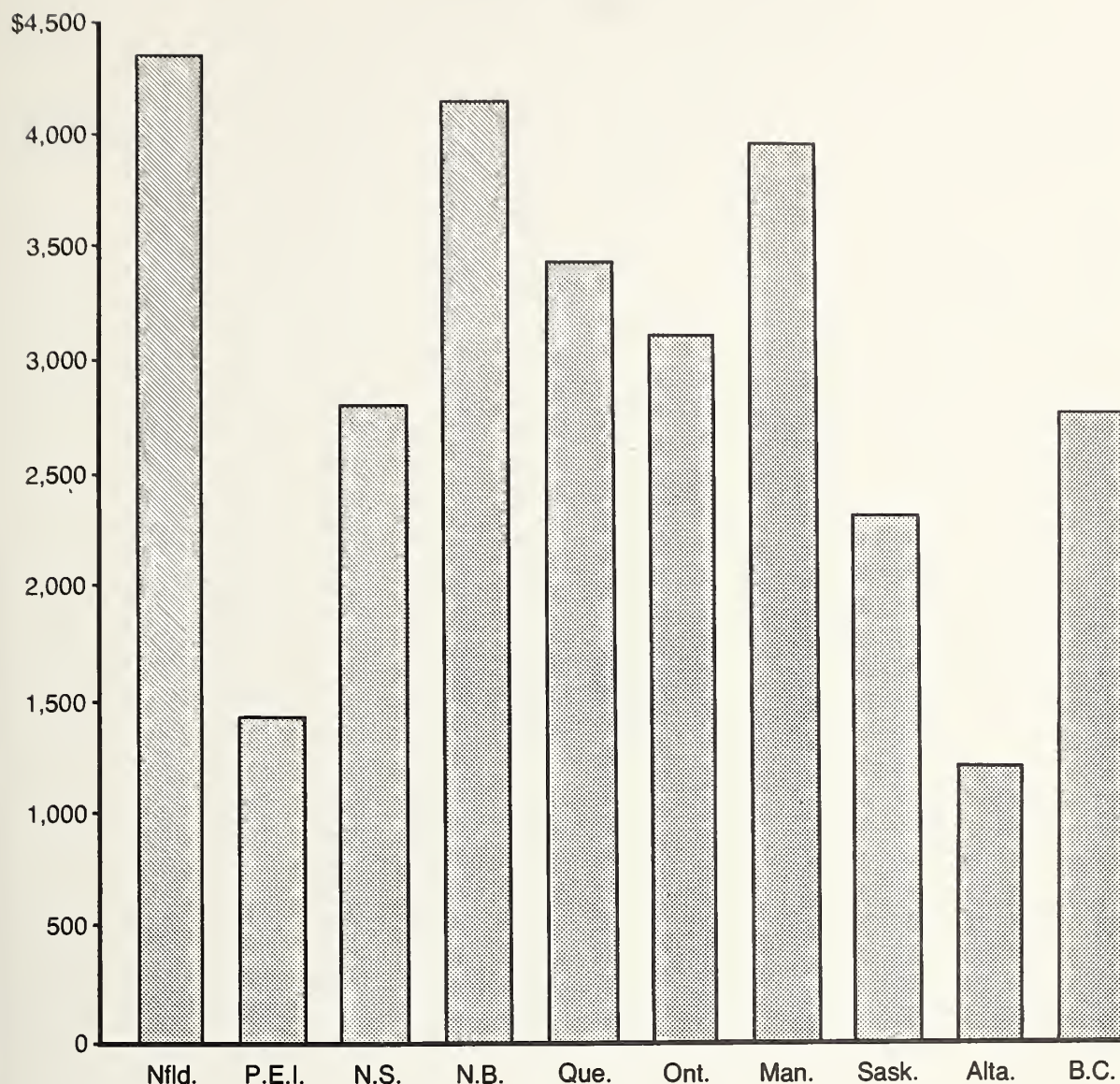
**Province of Manitoba Direct and Guaranteed Debt
Net Refunding Requirements by Fiscal Year:
By Currency of Payment and Purpose**
(Millions of Dollars)



Note: The above table indicates the amount that the Province of Manitoba will have to borrow for the purpose of repaying Direct and Guaranteed Debt after application of sinking funds based on the Canadian Dollar Equivalent on March 31, 1982 for all foreign debt.

5 year Totals shown after 1989

Provincial Total Debt Per Capita Comparison (as of March 31, 1980)



Province	March 31,		Increase %
	1979	1980	
Newfoundland	4,129	4,346	5.25
Prince Edward Island	1,272	1,435	12.81
Nova Scotia	2,389	2,812	17.70
New Brunswick	3,810	4,153	9.00
Quebec	3,029	3,445	13.73
Ontario	2,869	3,108	8.33
Manitoba	3,876	3,954	2.01
Saskatchewan	2,082	2,312	11.05
Alberta	1,249	1,218	(2.48)
British Columbia	2,597	2,788	7.35

Source: Bank of Montreal — Provincial Summaries, July, 1981

APPENDIX II

ECONOMIC REVIEW
AND
STATISTICS

MANITOBA ECONOMIC REVIEW

THE CANADIAN RECESSION

From 1979 to 1981, the Canadian economy experienced recurring cycles of economic decline and short-lived renewal which have characterized developments in North America since the application of stringent monetary policy in the United States in the fall of 1979 and the Reagan administration's budgetary policies, involving cutbacks in social spending, supply-side incentives and continued substantial deficits. Economic policy in the United States, and especially monetary policy, has produced an environment of historically high and volatile interest rates and successive stop-start responses in production and job creation. Canada's major trade and financial linkages with the United States have transmitted these forces to the domestic economy where essentially similar, although initially more moderate, national fiscal and monetary policies began to be applied even earlier than in the United States. However, these policies have not achieved significant progress in either reducing inflation and unemployment, or in creating the basis for sustained and stable growth.

There is concern that the national economy, weakened by these successive cycles, will experience only very modest recovery during the next two years or that continued high interest rates could cause the economy, after emerging briefly from the recession later in 1982, to enter another downturn in 1983.

The current recession, the second in two years, began in mid-1981 and has proven to be the most severe since the early 1950s. From June, 1981 to February, 1982, Industrial Production in Canada declined 11.0%, while real Gross Domestic Product (total production in Canada) declined 3.7%. Along with these declines, lay-offs and plant closures became widespread and resulted in the loss of about 300,000 jobs, or nearly 3% of total employment between August, 1981 and April, 1982. The unemployment rate in Canada rose to a post-Depression high of 9.6% in April, 1982. Recent projections indicate that unemployment rates may remain in the 9.0% range throughout 1982 and 1983 and may decline only gradually in the mid-1980s.

Alongside deepening recession in 1981, the adjustment to higher domestic energy prices contributed to a strong surge in inflation in Canada with the Consumer Price Index increasing 12.5%, up from the 10.1% increase recorded in 1980, and the highest increase in 33 years. The acceleration of prices in Canada in 1981 occurred while international

inflation was moderating following the adjustment to the 1979-80 world oil price increases, and in response to the recession. Consumer price increases in the United States, for example, decelerated from a 13.5% increase in 1980, to 10.3% in 1981 and are expected by some observers to average as low as 5% in 1982. Although some moderation in inflation rates in Canada is expected this year, the growing gap between domestic and international price increases has created concern that Canada's competitive ability in export markets is being eroded, and that future levels of interest rates in Canada may be kept abnormally high.

Canadian monetary policy has increasingly over the past eighteen months been directed towards the defence of the value of the Canadian dollar, and the Bank of Canada now acknowledges that, even at the cost of severe recession, there is little that monetary policy can achieve in the current circumstances in bringing down inflation rates. In fact current interest rates are a major contributor to the cost of living and the cost of doing business.

Although, in setting Canadian interest rates, the Bank of Canada moderated the swings in United States interest rates to some extent in 1980, Canadian short-term interest rates were raised above comparable United States rates in late 1980 and remained above the latter throughout 1981. Positive Canada-United States differentials, which varied between 2 and 3 percentage points on 3-month treasury bills until mid-1981, widened to between 4 and 5.5 percentage points as short-term rates in Canada moved towards their peak in early August, 1981. The trend-setting bank rate rose to 21.24%, to which the chartered banks responded by pushing prime lending rates to an unprecedented 22.75% and driving consumer loan and residential mortgage rates to new record levels.

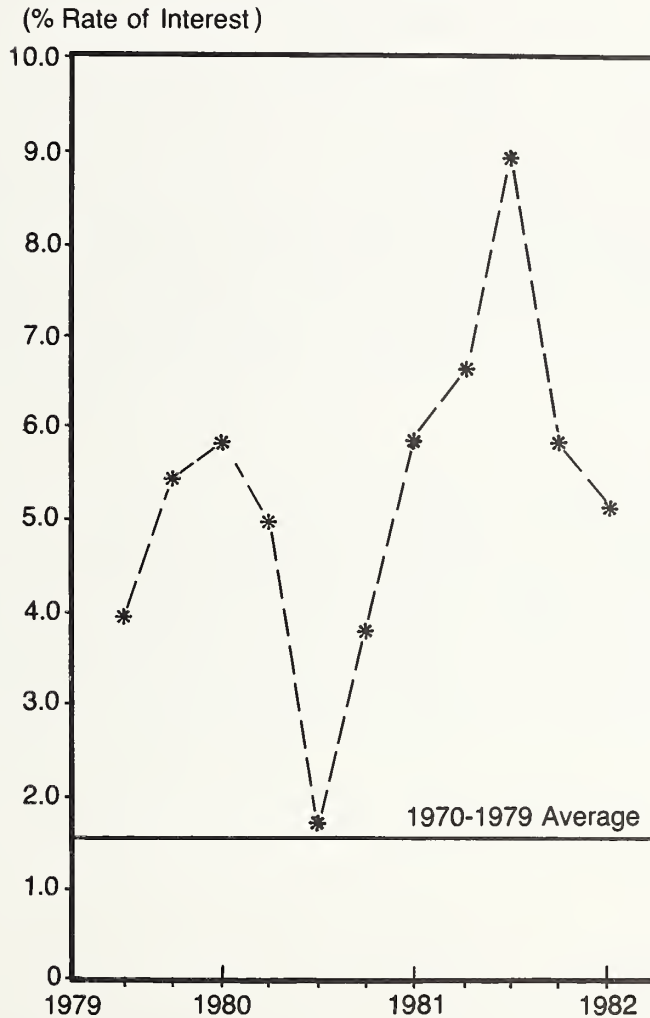
By the end of 1981, prime lending rates had declined from 22.75% to 16.50% and interest rate differentials with the United States narrowed to about 2.5 percentage points. Although residential mortgage and consumer loan interest rates were also reduced, the improvement in these rates has not been as great as the declines in commercial paper and other short-term rates.

By April, 1982 short-term rates in Canada and the United States had edged up somewhat from the lows of December and January, despite the fact that the economy continued to be in recession. The interest rate differential between Canadian and United States 3-month treasury bills has remained close to 2 percentage points. A somewhat smaller margin separates Canadian and United States commercial and finance paper rates of the same term. The Canadian prime lending rate stood at 17.0% at the end of April compared with a rate of 16.50% in the United States.

It has been argued that interest rates cannot be held below the rate of inflation on a permanent basis without incurring capital shortages. However, real rates of interest, the amount by which

interest rates exceed inflation, have recently been well above their historical levels, particularly in 1981 when real rates were at times close to 10.0% compared with their average of less than 2.0% during the 1970s.

Real Prime Lending Rate — Canada



Note: The real rate of interest is the actual rate minus inflation. Quarterly average real prime lending rates were derived by subtracting the average changes from a year earlier in the Consumer Price Index from average actual prime lending rates for each quarter.

Source: O.E.C.D. Economic Outlook, December 1981
and Statistics Canada

Real prime lending rates in the United States have been even higher than comparable Canadian rates since the fourth quarter of 1980. In the first quarter of 1982, the United States real rate averaged 8.65% or almost 3.5 percentage points higher than its Canadian counterpart.

The Bank of Canada's stated policy is to maintain growth rate targets for the money supply (M1). However, since August monthly changes in M1 have fallen consistently short of the current target range of 4% to 8%, resulting in a substantial over-achievement of the policy goal. In other words, maintaining growth within the target band could have been achieved with much lower interest rates.

At the First Ministers' Conference on the Economy, in February, 1982, the Premier of Manitoba cited high interest rates as a major cause of current high levels of unemployment, small business bankruptcies and mortgage foreclosures. He indicated that "the ultimate solution has to be a reduction in the rates themselves through a coherent strategy appropriate to Canadian realities. If that means some downward movement in the exchange value of the Canadian dollar in the short run, then we would be prepared to see that happen." The Premier called for full federal-provincial consultation on the differing impacts of monetary policy in the regions and for measures to offset the damage done to certain regions. "It seems clear that the policy of tight money and high interest rates has made the wealthier areas of Canada comparatively better off, other areas even worse. Manitoba's many small businesses, and thus our entire economy, have been hit hard. Unlike large corporations they cannot withstand a prolonged period of high interest rates."

Recent analysis suggests that a policy of lower Canadian interest rates would have a more moderate impact on the value of the dollar than has been feared by some observers, and that such a policy would offer much stronger growth than is generally forecast for the Canadian economy in 1983. In addition, it has been estimated that the added cost of imports due to the decline in the exchange rate could be fully offset in consumer prices by generally lower costs in the Canadian economy.

DEVELOPMENTS IN MANITOBA

Current Department of Finance estimates indicate that Manitoba's Gross Provincial Product reached an estimated \$12,800 million in 1981, an increase of about \$1,640 million, or 14.7%, from the \$11,160 million presently estimated for 1980. However, this increase was centered in sectors where increased output did not contribute substantially to job creation, with the result that employment growth of less than 1% was achieved and the unemployment rate increased by 0.5 percentage points from 5.5% in 1980 to 6.0% in 1981.

Overall performance in Manitoba in 1981 was highlighted by a major improvement in agricultural growing conditions following the 1980 drought and by related increases in farm supply, processing and service activity. Spin-offs from the agricultural sector supported total output in the economy, particularly in manufacturing, transportation and wholesale and retail trade industries, while a number of other sectors, including the construction industry and many small businesses, continued to experience the difficult circumstances of recent years. Growth in jobs and output was also constrained by high interest rates, and the deepening national recession in the second half of the year. Some sectors, notably mining and forest products, were adversely affected by national and international market developments.

Commercial failures continued to increase in Manitoba in 1981 with the increase during the two years 1980 and 1981, compared with the previous two years, being the worst among all provinces. Although the Governor of the Bank of Canada has acknowledged that monetary policy and high interest rates have differential regional impacts, which may be particularly severe in a province characterized by smaller scale economic activity, the failure of the federal government to come forward with alternative policies and measures to offset the detrimental impacts of monetarism has been of great concern to the Government of Manitoba and to homeowners, farmers and the business community throughout the province. In the absence of needed federal policy leadership, the Provincial Government has implemented a program of interest rate assistance to cushion the worst impacts of excessively high rates.

POPULATION AND EMPLOYMENT

The 1981 Census population counts suggest that migration patterns in Canada had changed significantly in the late 1970s compared with the previous intercensal period from 1971 to 1976 and that population levels for a number of provinces including Manitoba were somewhat lower than had been previously estimated. According to the Census, the population of Manitoba in June 1981 was 1,026,241 an increase of 4,735 or 0.5% from 1,021,506 in 1976. Pending the availability of detailed Census information, it appears that this growth occurred from 1976 to 1978 and that out-migration resulted in a decline in population since 1978, followed by a very modest upturn in 1981.

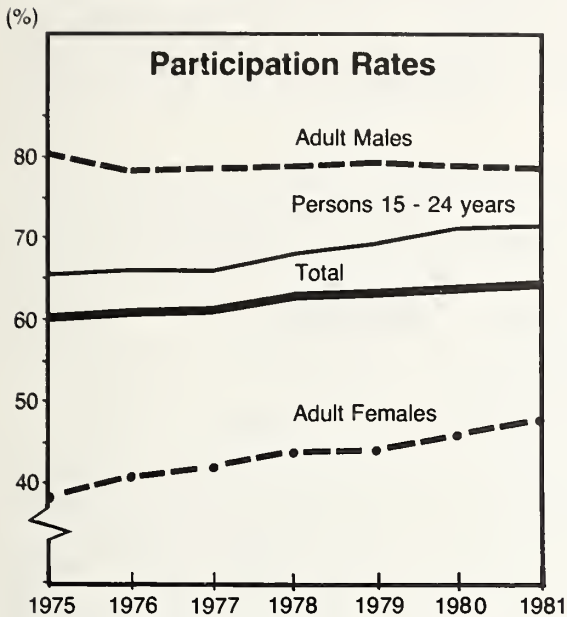
Total employment in Manitoba averaged 462,000 in 1981, an increase of 3,000 or 0.7% from 1980. This growth rate was about one-quarter of the 2.6% increase recorded for Canada and the third lowest rate among the provinces. Over the past 5 years, since 1976, the number of persons employed in Manitoba increased 8.5%, slightly more than half the national rate of increase of 15.3%.

As mentioned previously, Canadian employment has declined since August, 1981. Employment in Manitoba, however, showed only a slight decline in late 1981 and has increased to 464,000 on a seasonally-adjusted basis in the first four months of 1982, or 2,000 above the 1981 annual average.

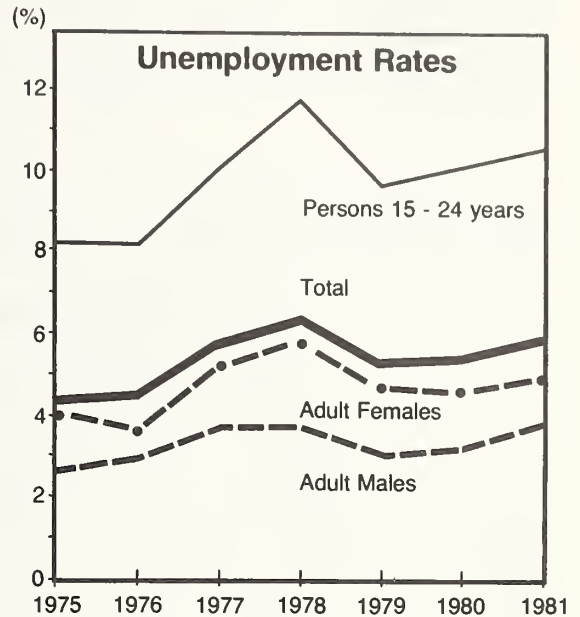
The unemployment rate in Manitoba rose from an average of 5.5% in 1980 to 6.0% in 1981, while for Canada as a whole the unemployment rate increased marginally, from an average of 7.5% in 1980 to 7.6% in 1981. However, Manitoba's unemployment rate remained the third lowest in Canada, with Alberta and Saskatchewan recording lower levels. In the first four months of 1982, Manitoba's seasonally-adjusted unemployment rate rose to 6.8% while the national rate moved up to 8.9%.

Unemployment has been concentrated among young people between 15 and 24 years of age. On average in 1981, 29,000 Manitobans were unemployed of which 14,000, or nearly half were young people, although the proportion has declined slightly in recent years. The unemployment rate for adult women increased to 5.0% in 1981 from 4.7% in 1980 while the rate for adult men climbed to 3.9% in 1981 from 3.3% in 1980. For persons aged 15 to 24, the unemployment rate rose from 10.1% to 10.6%.

Participation and Unemployment Rates, Manitoba, 1975-81



Source: Statistics Canada



The trend toward increased labour force participation by both women and young people continued in 1981. The participation rate of adult women reached 48.1% in 1981, an increase of 1.8 percentage points from 1980 and over 9 percentage points since 1975. The participation rate for young people increased marginally to 71.4% in 1981, from 71.3% in 1980, but was significantly greater than the 66.0% recorded in 1975. Manitoba's total participation rate continued its upward trend, rising 0.4% from 64.6% in 1980 to 65.0% in 1981, however, the increase was the smallest since 1976.

Manitoba's total labour force averaged 492,000 in 1981, growing by 6,000 or 1.2% from 1980. Since 1975, Manitoba's labour force has grown 12.6%, well below the 18.6% growth recorded on a national basis.

The Government has announced funding of \$2.9 million for a Career Internship Program to enrich job opportunities during the summer and a Career Exploration Program to provide employers with an incentive to hire unemployed youths during the winter months.

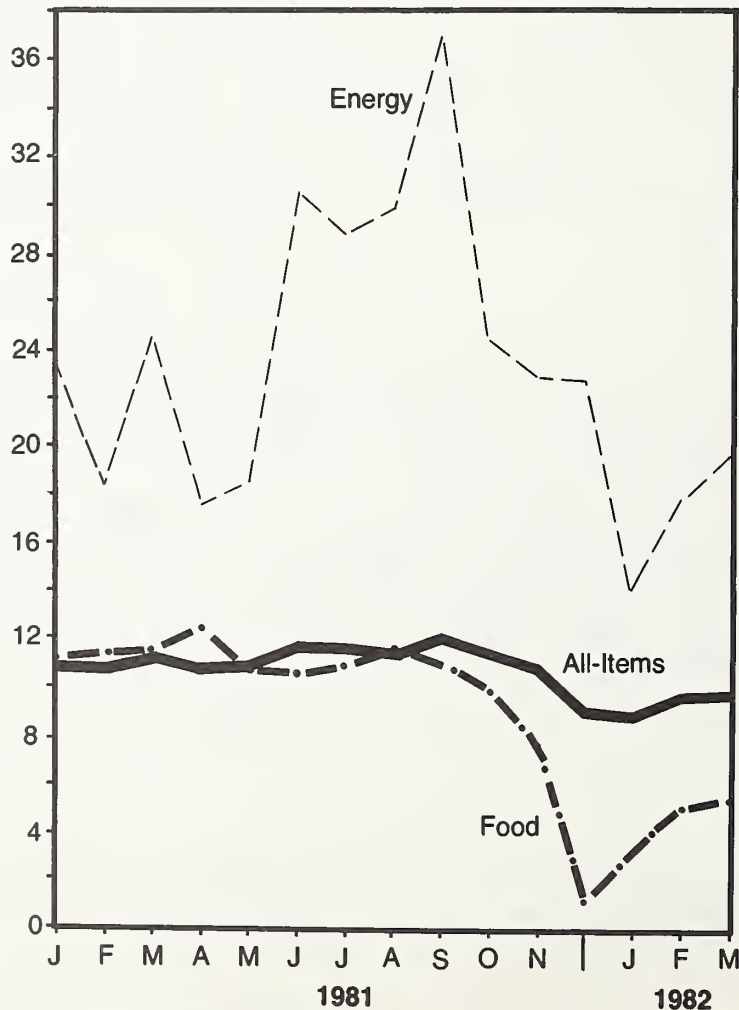
PRICES

Consumer prices accelerated in 1981 with the absorption of higher domestic energy prices contributing to the highest increase in the national Consumer Price Index since 1948. The Winnipeg Consumer Price Index rose 11.1% on average in 1981, up from 10.0% in 1980 but below the 12.5% average increase in the national Index. Both the Winnipeg and national Indices demonstrated signs of moderation in the latter months of 1981 with increases from December, 1980 to December, 1981, of 9.3% for Winnipeg and 12.1% for Canada.

As illustrated in the accompanying chart, substantial increase in the energy component and some moderation in the food component of the Winnipeg Consumer Price Index occurred over the past 15 months.

Consumer Price Index — Winnipeg

(% change from same month a year ago)



Source: Statistics Canada

In 1982, the recession and relatively weak recovery prospects along with scheduled energy price increases are expected to contribute to some abatement of inflation in Canada, for the first time since the most recent upsurge began in 1977. Energy prices on a Consumer Price Index basis, for example, were projected in the November, 1981 federal Budget to rise 18.7% in 1982 versus 29.0% in 1981.

In March, 1982, the Winnipeg Consumer Price Index was up 9.9% from March, 1981, the lowest year-over-year increase among the 15 Canadian cities for which the Index is compiled.

It is widely recognized that the Consumer Price Index does not fully describe the cost of living because it is adjusted only infrequently for changing consumption patterns, inadequately reflects the impact of high interest rates and accounts only for a standard "basket of goods" which is not relevant for all income levels and life styles in the community. However, another indication of the relatively moderate costs of living in Winnipeg compared with other major Canadian cities is contained in an analysis by the Conference Board of Canada. Although the published analysis relates primarily to middle and upper income households, the results show that when all normal living costs including housing, taxes, food, transportation, clothing, household goods and sundries are taken into account, a \$40,000 income-earner with a dependent adult and two dependent children living in Winnipeg would have nearly \$5,000 remaining in discretionary income or nearly double the discretionary reserves of a similar income earner in Montreal, the next lowest cost city in the study. In Toronto, Calgary or Vancouver, the same income earner would have to draw down savings to maintain the lifestyle which enables the Winnipegger to substantially augment savings.

INCOMES

Present estimates indicate that total personal income increased an estimated 18.8% from \$9,133 million in 1980 to \$10,850 million in 1981. A substantial proportion of the increase is attributable to additions to farm inventories which are included in the income statistics, and to increases in interest income as a result of very high interest and savings rates during the year. Personal disposable income is estimated to have increased by 18.5% from \$7,755 million in 1980 to \$9,190 million in 1981.

Wage and salary incomes in the province increased a more moderate 12.5% in 1981, to \$6,381 million, in part as a result of increased employment. In 1981, average weekly earnings in Manitoba increased 11.0% to \$314.34, slightly below the 1981 increase in the Winnipeg Consumer Price Index of 11.1%. Over the past four years, average weekly earnings have failed to keep pace with the Consumer Price Index, resulting in a cumulative 4.1% shortfall of average weekly earnings in relation to the general price level in Winnipeg, and a 3.6% shortfall for Canada.

The Government has announced an increase in the minimum wage in Manitoba from \$3.55/hour to \$4.00/hour, effective July 1, 1982.

As discussed in the section on Agriculture, below, realized net farm income declined in 1981 despite the strong increase in inventories and total net farm income which contributed to the personal income increase noted above.

INVESTMENT

Following substantial annual increases in investment expenditures in the early and mid-1970s, growth in new capital investment decelerated sharply in 1977 and 1978 in both Manitoba and in Canada. The initial slowdown in Manitoba was in part accounted for by the slowdown in hydro-electric development. However, the strong recovery in Canadian investment spending, beginning in 1979, was not matched in Manitoba. In fact, total new capital investment expenditures in the province increased only 1.1% in 1979, before allowing for inflation, and declined by 0.8% in 1980 while Canadian investment expenditures rose by 16% and more than 13% in the two years, respectively.

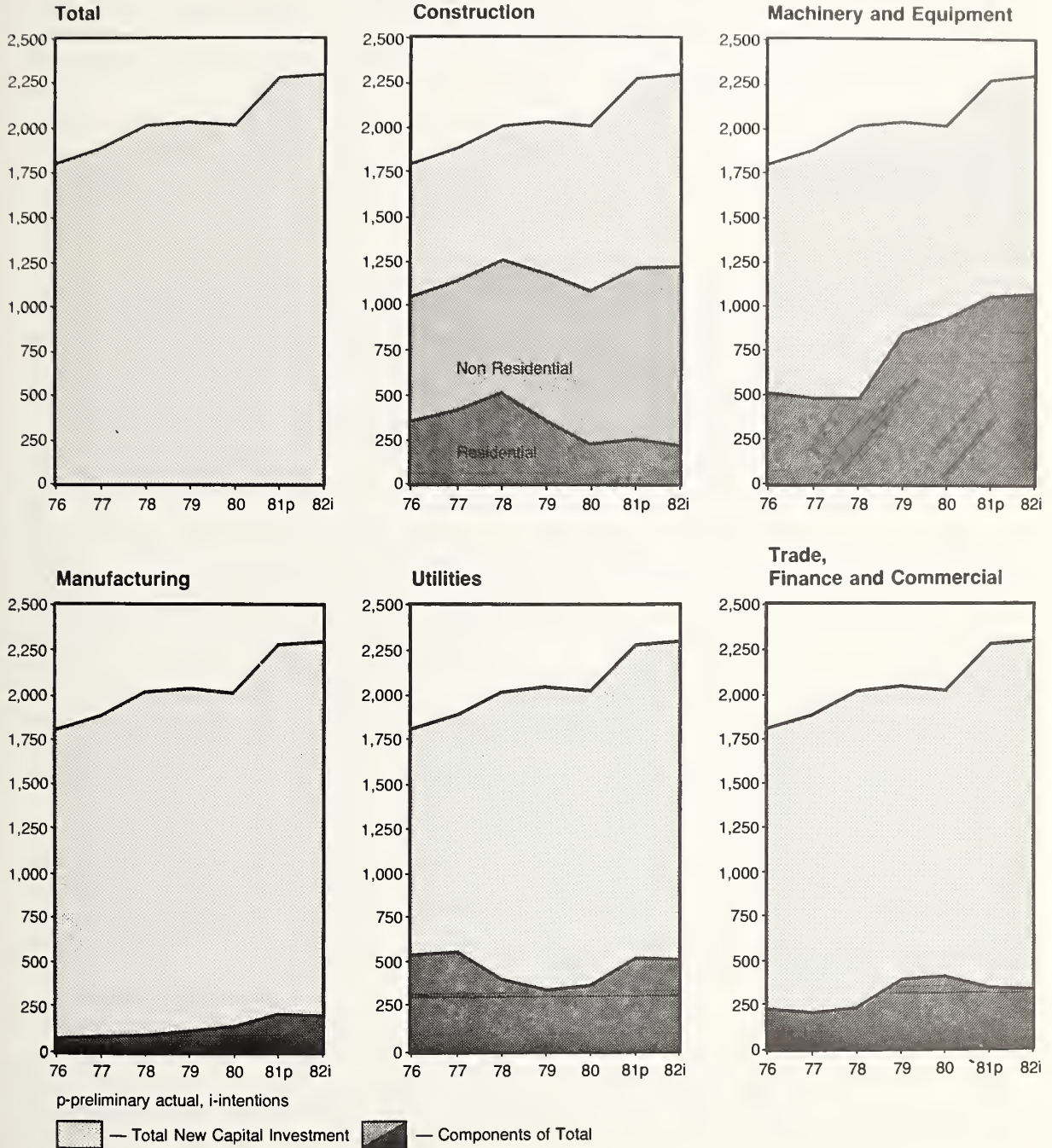
In 1981, new capital investment expenditures in Manitoba increased 12.7% to \$2,282.1 million, in part as projects postponed during the economic downturn in 1979 and 1980 were re-initiated. Nonetheless, this increase remained substantially below the Canadian increase of 18.6% in 1981. The increase in investment spending in the five years from 1976 to 1981 in Manitoba totalled only 26%, well below the Canadian increase of 80%, the lowest increase among all provinces and substantially below the 56% increase in the Canadian investment price index. These figures suggest that the real addition to capital stock in the province, after allowing for inflation, was some 30% lower in 1981 than in 1976.

Within the overall 1981 investment total, two sectors, manufacturing with an increase of 53.4% to \$204.3 million, and utilities with an increase of 40.6% to \$519.8 million, recorded significant increases. Manitoba's manufacturing sector has benefitted from the decline in the value of the Canadian dollar during the late 1970s. As well, recovery after two years of downturn in agriculture sparked the rescheduling of related investment projects in the manufacturing sector. Increased investment in the utilities sector was concentrated in the transportation industry.

For 1982, initial investment spending intentions in Manitoba show a continuation of the trend of the late 1970s with a projected increase of only 1.1% to \$2,307.0 million. Although the implied decline in investment in real terms is a concern, the province's prospects have generally improved since the Statistics Canada Survey was conducted in late 1981 and it has become apparent that economic activity in Manitoba has held up relatively well during the recession, compared with a number of other areas of the country. National investment prospects, which showed an intended 11.0% increase in spending in the Survey, appear to have worsened as business executives have become increasingly concerned

New Capital Investment by Sector, Manitoba, 1976-82

(Millions of Dollars)



Source: Statistics Canada

with continued high interest rates and deteriorating profitability and market conditions.

The construction sector continues to be an area of concern in Manitoba in 1982 with residential investment expenditures expected to decline 13.1% to \$255.2 million, and overall construction expenditures expected to increase 0.2% to \$1,230.1 million, but remain below the 1978 level. (See also the section on Construction and Housing, below.) Machinery and equipment expenditures were anticipated in the Survey, to rise 2.2%, to \$1,076.9 million.

SECTORAL DEVELOPMENTS

Agriculture

A year of good growing conditions for Manitoba farmers in 1981 resulted in record crop production and a rebuilding of inventories which were drawn down in 1979 and following the 1980 drought. The total value of agriculture production in 1981 is estimated at \$2.0 billion, an increase of 20.0% from \$1.7 billion in 1980. All of the increase was accounted for by crop production while a slight decline occurred in the livestock sector.

Total farm cash receipts in Manitoba reached \$1,621.5 million in 1981, an 11.7% increase over 1980. However, farmers continued to be caught in a cost-price squeeze with prices of output rising at a lower rate than costs of inputs. The increase in interest expenses has been particularly dramatic, with a rise of 70% in the past two years resulting in the highest ratio of debt servicing costs to operating expenses since the 1930s. Machinery expenses, interest on farm debts and crop production expenses contributed to a 16% increase in operating and depreciation expenses, to \$1,404.3 million in 1981, and resulted in the third consecutive year of decline in realized net farm income. According to estimates by the Manitoba Department of Agriculture, realized net income declined 8% from \$257.1 million in 1980 to \$236.5 million in 1981.

The Provincial Government has introduced an Interest Rate Relief Program, including financial assistance and extensive financial and managerial counselling, to assist low and middle income farmers whose incomes have been most seriously depressed by the rapidly escalating interest rates over the past several years.

Preliminary 1981 production estimates for all principal field crops are substantially above 1980 levels. New record output was established for a number of commodities including wheat, rye, barley and grain corn. Wheat production increased 76% from the 1980 level of 70 million bushels to an estimated 123 million bushels in 1981.

The Statistics Canada Survey of farmers' planting intentions for 1982 indicated an overall 1.3% increase in acreage of principal field

crops in Manitoba, from 8.9 million seeded acres in 1981 to an intended 9.1 million seeded acres in 1982. Significant additions to oilseed acreages are expected, while little change is anticipated in wheat acreage which is to remain at 3.9 million acres, or about 43% of total grain crop area in the province.

The January, 1982 inventory of beef cattle on farms indicates that the total number of cattle remained close to the same level as a year earlier at approximately 1.1 million head. In 1981, approximately 321,500 cattle and calves were slaughtered in Manitoba, about the same number as in 1980, however lower prices contributed to an overall 7.9% decline in cash receipts on the sale of cattle and calves, from \$317.5 million in 1980 to \$292.4 million in 1981. Details of a recently introduced Beef Income Stabilization Program are currently being finalized, in consultation with producers.

The number of hogs on Manitoba farms in January, 1982 declined 1% from the previous January. However, expected farrowing in the late winter and spring of 1982 are up by 3% over 1981, and some increase in hog marketings is expected by the fall of 1982. Hog prices fluctuated widely in 1981, with September prices being 31% higher than prices in April. Cash receipts from hog production increased \$22.0 million, up 20% from \$112.6 million in 1980 to \$134.6 million in 1981. An examination of the Hog Income Insurance Fund is underway to determine whether or not to extend a stabilization program beyond December, 1982.

Cash receipts from other livestock and livestock products continued to increase in 1981. Receipts to dairy producers increased 15.4% to \$87.1 million with supplementary dairy payments rising 2.3% to \$10.4 million. Total milk production rose in the first half of the year but declined in the second half, resulting in little change in the annual volume of production, at about 257 million litres. Receipts from egg production rose 18.1% to \$44.3 million while sales of poultry rose 11.6% to \$42.3 million.

Although the cash position of the agriculture sector deteriorated in 1981, as illustrated by the decline in realized net income, additions to inventory from the record crop production which are included in total net income contributed to a record high of \$430.0 million, up \$378.6 million from \$51.3 million in 1980. The previous record total net income was \$398 million in 1975. In 1981, the value of farm inventories rose by \$202.5 million in contrast to the previous year's decline of \$205.7 million.

Farm Cash Receipts

	<u>1979r</u>	<u>1980r</u>	<u>1981p</u>	<u>Percentage Change</u>		
				<u>1979/ 1978</u>	<u>1980/ 1979</u>	<u>1981/ 1980</u>
	(Millions of Dollars)					
Crop Receipts	735.6	829.6	949.2	19.1	12.8	14.4
Livestock Receipts	561.7	603.1	623.4	13.9	7.4	3.4
Other Sources	11.3	19.0	50.0	-48.2	71.9	158.1
Total Farm						
Cash Receipts	1,308.4	1,451.7	1,621.5	15.6	11.0	11.7

Farm Net Income

Operating and Depreciation Expenses	1,104.6	1,212.0	1,404.3	29.8	9.7	15.9
Realized						
Net Income	280.7	257.1	236.5	-5.5	-8.4	-8.0
Value of Inventory Changes	-49.9	-205.7	202.5			
Total Net						
Farm Income	230.8	51.3	430.0	-32.1	-77.8	738.2

r - revised, p - preliminary

NOTE: Due to more current revisions in farm cash receipts data series it is not possible to reconcile farm cash receipts and farm net income at this time.

SOURCE: Statistics Canada

The Agriculture Division of Statistics Canada has projected a marginal increase in realized net income for Manitoba farmers in 1982. Total cash receipts are projected to increase 10% with total operating and depreciation expenses rising at a faster rate of 11%.

Forestry

The total volume of wood produced in logging operations in Manitoba increased 7.5% in 1981 to about 2.5 million cubic meters compared with 2.3 million cubic meters in 1980. The increase in logging activity resulted primarily from intensive wood salvage operations in areas affected by forest fires during the past three years. However, soft international demand for forest products in 1981 meant that increased wood production was absorbed through a build-up of inventories which increased 27.8% from 514,000 cubic meters in 1980 to 657,000 cubic meters in 1981.

In the face of declining demand in the United States newsprint market, the 1981 value of production of primary wood manufacturing, including saw milling and pulp and paper, remained at about the 1980 value of \$175 million. Continued depressed conditions in the residential construction industry in the United States and Canada contributed to reduced output in secondary wood manufacturing, however, estimates of the extent of the reduction are not yet available.

These market conditions have led to a number of lay-offs, temporary plant closures and reduced employment opportunities in the forestry and forest products industry. Following the current three-week shut-down, the Manitoba Forestry Resources Ltd. complex at The Pas is expected to re-open in June but to remain on a reduced work schedule until at least April, 1983.

Manitoba's commercial forest lands extend over 650,000 square kilometers or about 40% of the Province's land area and contain an estimated 460 million cubic meters of merchantable timber. This renewable resource could sustain a harvest of about 7.5 million cubic meters in perpetuity, or about 3 times the current annual cut. This, however, would require large scale development expenditures for roads and plant expansions. Even maintenance of the present harvest to sustain existing industry operations requires increased forest management investments.

Fishing

The total Manitoba fish catch increased 5% in 1981-82 to an estimated 29.5 million pounds, delivered weight. Total payments to Manitoba fishermen F.O.B. delivery point were up \$3 million in 1981-82 to \$16.5 million. This increase in initial payments was due largely to higher initial fish prices as well as to an increase of 40% in the production of the higher valued pickerel catch. When final payments have been included, total payments to Manitoba fishermen will be up a modest 2% to 3% to an estimated \$18 million, due largely to lower final payments. For 1981-82 whitefish production was down approximately 30%. Other major fish species in Manitoba include northern pike and sauger.

The dollar value of Manitoba fish sold through the Freshwater Fish Marketing Corporation during the year ending April 30, 1982 is estimated at approximately \$26 million.

Mineral Resources

Declining world demand, falling metals prices and labour disputes contributed to a growing recession in the Canadian mining industry during 1981, and a 3.1% decline in the value of metals production in Canada, to \$9.4 billion. In Manitoba, preliminary estimates for 1981 indicate a \$140.7 million or 17.2% decline in the total value of mineral output, from \$820.6 million in 1980 to \$679.8 million in 1981 with the value of metals falling by 24.5% to

\$502.0 million. The decrease in the value of metals was due to a combination of low metals prices in a weak market, a three month labour dispute at Inco Metals Company's Thompson operations and lower than projected production levels at Sherritt Gordon Mines Limited's Ruttan and Fox mines. Nickel output alone declined by \$87.6 million as the production volume of nickel declined from 86.4 million pounds in 1980 to 61.7 million pounds in 1981. The value of copper and gold production dropped \$40.3 million and \$14.5 million, respectively. The volume of copper production fell 7.9% from 142.8 million pounds to 127.4 million pounds with gold declining 21.8% from 51,000 ounces to 40,000 ounces from 1980 to 1981.

There were some isolated gains with the production value of zinc, tantalum, and industrial minerals rising 13.0%, 7.8% and 12.8%, respectively.

Continued weakness in mineral markets in early 1982 has resulted in further price cutting especially for copper, nickel, zinc, tantalum and precious metals. Soft world markets are also affecting the demand for aluminum and potash, with the price of the latter about one-third lower than in 1981 and expected to remain weak and possibly decline further in 1983.

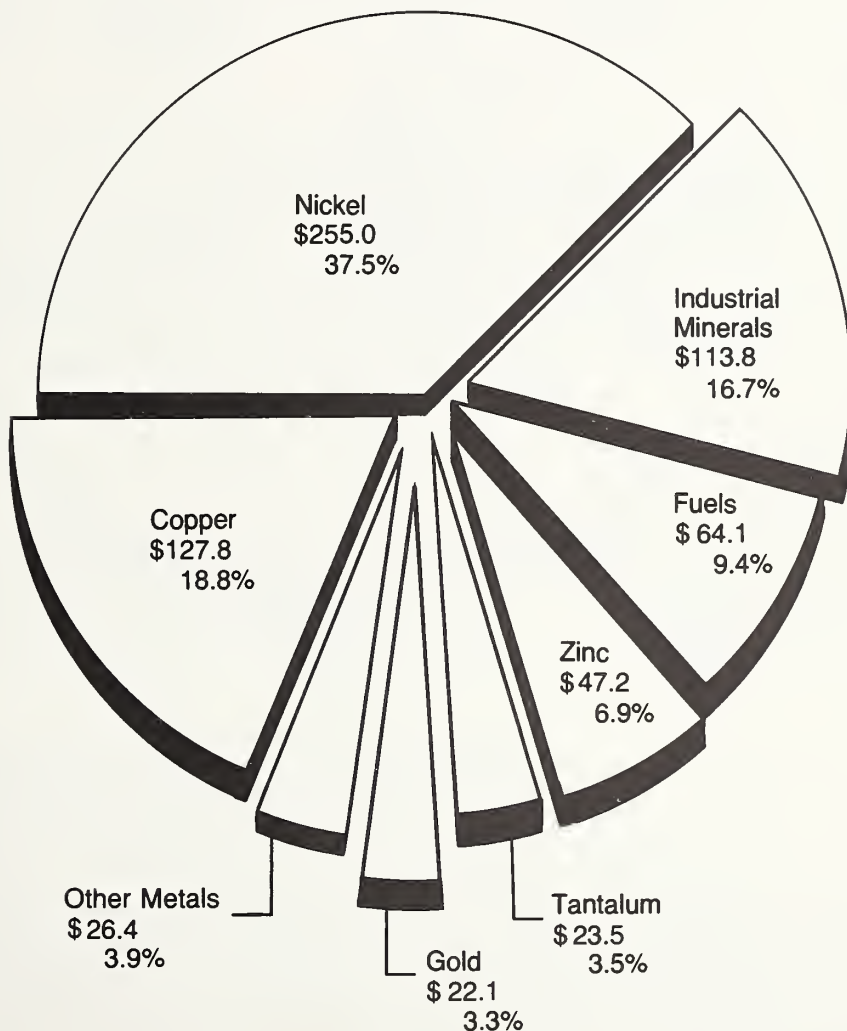
Outside of the petroleum sector, mineral exploration expenditures in 1981 are estimated at \$26 million compared with \$28 million in 1980 and \$16.5 million in 1979. Staking activity remained strong during 1981 with 553,133 acres recorded, up 11.1% from 499,102 acres in 1980 and the highest level of claim staking recorded since 1970.

Other highlights of recent mining industry activity include:

- ° Continuation of a \$59 million development by Hudson Bay Mining and Smelting Co. of copper-zinc mines at Trout Lake, Spruce Point and Stall Lake (Rod Mine) for combined production by early 1983 of 3,020 tons of ore per day. The Trout Lake development is under a joint-venture agreement among HBMS, Granges Exploration AB and Scandinavian Associates, and Manitoba Mineral Resources Ltd. which holds a 27% interest in the project. In addition, HBMS is continuing a \$20.0 million expansion and upgrading of metallurgical operations at Flin Flon to be completed by the fall of 1982.
- ° Brinco Ltd. and New Forty-Four Mines Ltd., in a \$15 million joint venture have re-opened the former San Antonio gold mine at Bissett. The milling plant at the mine has a capacity to treat 550 tons of gold ore per day.
- ° Inco Metals Company will spend \$87 million on the first phase development of a new open pit nickel-copper mine at Thompson which will replace production from the company's Pipe open pit mine when the latter is depleted in 1984.

- ° In late December, 1981, Sherritt Gordon announced a layoff of one-third of the company's Manitoba workforce and reduced production at its Fox and Ruttan mines in an attempt to alleviate operating losses.
- ° Because of continued forecasted depressed metals markets during 1982, Hudson Bay and Sherritt Gordon have announced extended summer vacation shutdowns at their Manitoba operations.

Value of Mineral Production, Manitoba, 1981 **(Millions of Dollars and Percent Share of Total)**



Total Value of Mineral Production, \$679.8 Millions

Source: Manitoba Department of Energy and Mines

Higher wellhead prices for petroleum resulted in a 16.6% increase in the value of production in Manitoba's petroleum industry to \$64 million. The volume of oil production declined 3.7% to 542,695 cubic meters in 1981 from 563,482 cubic meters in 1980. However, higher oil prices encouraged a significant upswing in exploration activity in 1981 and a 130% increase to 62, in the number of wells drilled. Of these wells, 47 were completed as potential oil wells and 38 were brought into production by year end. Drilling activity to date in 1982 is approximately three times that of the same period in 1981. Total oil exploration expenditures exceeded \$20 million in 1981, more than doubling 1980's expenditures of \$10 million. On December 31, 1981, Manitoba's estimated remaining established oil reserves were 7.7 million cubic meters or approximately 14 years of supply at the 1981 production rate.

Companies reporting new oil discoveries in 1981 were Omega Hydrocarbons Ltd. at Waskada, Cobra Oil and Gas Corporation in the Pierson area, Tundra Oil and Gas south of Elkhorn, Rideau Petroleums Ltd. and Saskoil Resources Inc. in the Kirkella area and Clarion Petroleums Ltd. in the Deloraine area.

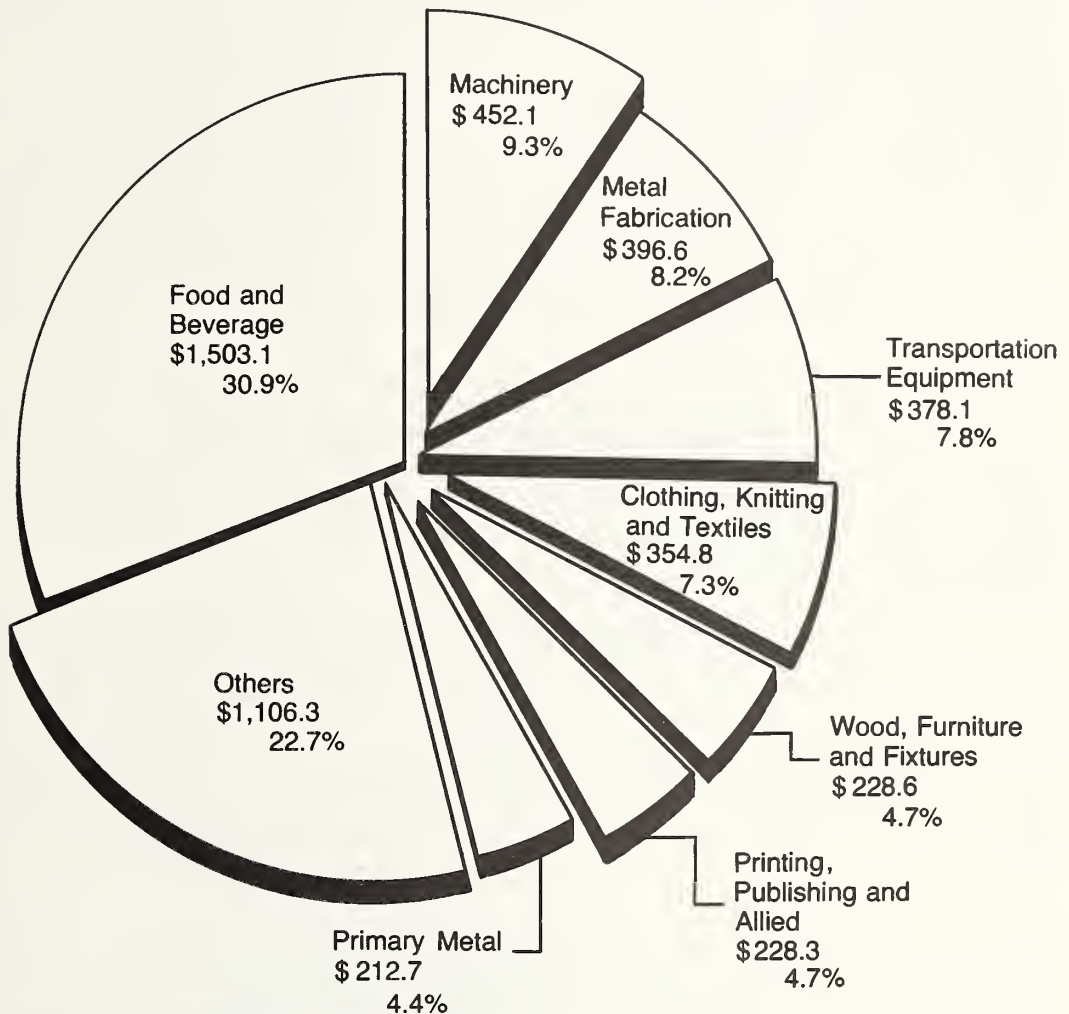
The Government has indicated that it will seek to ensure that the development of Manitoba's mineral resources is carried out in a manner that secures the maximum long-term benefit for all Manitobans. For metals, this will be achieved by actively seeking public participation through voluntary joint ventures with private mining companies using the Crown corporation Manitoba Mineral Resources Ltd. as the vehicle. To further oil exploration and development in Manitoba, the Government has announced that a Crown-owned oil corporation will be established.

Manufacturing

Manitoba's manufacturing sector demonstrated growth in 1981 with an increase in the value of shipments of manufactured goods of 13.1% to \$4,860.6 million. Manufacturing shipments increased 19.3% and 9.8% in 1979 and 1980, respectively. Growth in Manitoba compares favourably with national rates of growth of 17.9%, 9.5% and 12.7% in 1979, 1980 and 1981, respectively.

Consistent with Manitoba's agricultural heritage, the province's largest manufacturing industry is food and beverages. However, the value of shipments by the food and beverages industry increased by a below average 7.3% in 1981, to \$1.5 billion. The relative share of food and beverage shipments has declined, from 38.1% of all manufacturing shipments in 1970 to 30.9% in 1981 as other industries, particularly machinery, transportation equipment and metal fabrication have become increasingly important in the province's manufacturing base. The value of output of the latter group advanced 19.4%, to \$1.2 billion in 1981, and its share of the total manufacturing shipments has increased from 18.1% in 1970 to 25.2% in 1981.

Value of Manufacturing Shipments, Manitoba, 1981 (Millions of Dollars and Percent Share of Total)



Total Manufacturing Shipments, \$4,860.6 Millions

Source: Statistics Canada

Every sector in Manitoba's manufacturing sector demonstrated gains in the value of shipments in 1981 although not all sectors gained in volume terms. Wood, furniture and fixtures recorded an increase of 16.3%, to \$229 million with the value of chemical shipments increasing 18.3%, to \$125 million. Following a decline of 15.2% in the output of non-metallic minerals in 1980, the industry recorded some improvement in

1981 with an increase in the value of shipments of 9.7% to \$127 million. Clothing, knitting and textile shipments rose 12.4%, to \$355 million in 1981, following a moderate gain of 9.6% in 1980 and a strong increase of 26.5% in 1979.

The continued development of Manitoba's manufacturing sector provided record employment opportunities with the number of jobs averaging 68,000 in 1981. This surpassed the previous high of 65,000 persons employed in 1975. In 1981, there was an average year-over-year increase of 4,000 jobs, with the growth in employment primarily in the second half of 1981, when there was an average of 7,000 more jobs than in the comparable period of 1980. In the first four months of 1982 employment declined to 61,000, 4,000 below the same period of 1981.

The Provincial Government remains concerned with the state of manufacturing in the province, particularly in smaller firms. Smaller firms have faced difficulties in undertaking needed new investments due to the high level of interest rates, shortages of venture capital and the greater risk involved in adopting innovative technologies. Even established firms are facing difficulties in the current circumstances. The Government's Interest Rate Relief Program is designed to provide a measure of assistance and is being augmented by an active effort on the part of the Department of Economic Development to monitor the situation and provide early financial and managerial counselling and other Departmental services.

Further development of Manitoba's manufacturing sector was achieved in 1981 under the joint Canada-Manitoba Enterprise Manitoba Agreement. This umbrella Agreement is in the fourth year of its five year term and is designed to realize identified opportunities in the aerospace, food and beverages, health industry products, electronics and electrical products, transportation equipment and machinery industries, and to minimize constraints to the development of Manitoba's industrial base.

As the Agreement reaches its conclusion, priorities are being reviewed with the objective of restructuring policies and programs to take account of the changing circumstances of the 1980s and the medium and longer term prospects for the manufacturing sector in Manitoba.

Construction and Housing

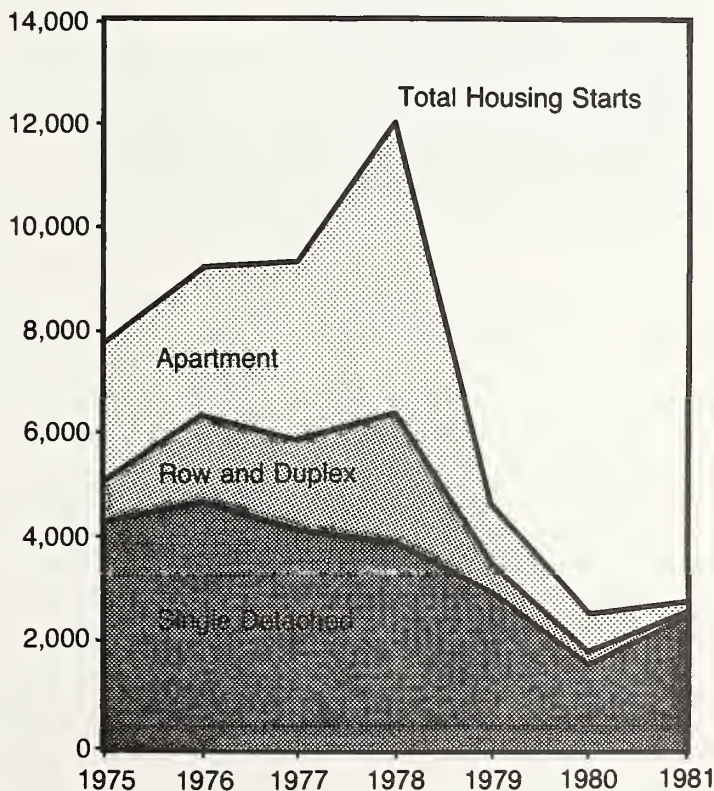
Construction activity remained depressed in 1981 with employment declining for the third consecutive year to 22,000, down 1,000 or about 4% from 1980 and down some 15% from the 26,000 employed in construction in 1978. Estimates of the value of new and repair construction indicate a 6.1% increase to a total of \$1,445 million, up from \$1,362 million in 1980. This modest growth, before allowing for inflation, follows two years of decline, -7.3% in 1980 and -2.2% in 1979.

Despite overall weakness, growth occurred in the engineering component of the industry where spending rose to \$612 million, an increase of \$116 million or 23.3% from 1980. Included in this component are such activities as roads and highways, waterworks and sewage systems, electric power construction, railways and telephones. In contrast, the value of building construction declined 3.8%, from \$866 million in 1980 to \$833 million in 1981. Decline in building construction was particularly pronounced in the retail and wholesale trade industry.

Although the 2,824 housing starts in Manitoba in 1981 represented an increase of 8.7% from the 2,597 starts recorded in 1980, this was less than one-third of the 1971 to 1980 average of 9,014 starts per year. In Canada, housing starts totalled 178,000 in 1981, 12.2% greater than in 1980 and 77.1% of the annual average of 231,000 per year in the previous ten years.

Housing Starts, Manitoba, 1975-81

(Number of Units)



Source: Statistics Canada

The greatest fluctuations in housing starts in Manitoba have been in apartment construction. Since the record year of 1978, housing starts have plummeted in Manitoba as a result of population trends, a large inventory of new housing units which the market took considerable time to absorb, and the sharp rise in mortgage interest rates.

Apartment vacancy rates have declined sharply in the past 18 months, creating concern regarding the escalation of rents to which the Government has responded by introducing a Residential Rent Regulation Act.

Housing prices demonstrated moderate increases in 1981. The new housing price index for Winnipeg rose 7.8%, up from less than 1% in 1980. In the resale market, the Winnipeg Real Estate Board estimated an average selling price of \$53,609, an increase of 4.1% over 1980. The total value of sales recorded by the Winnipeg and Manitoba Real Estate Boards rose 21.6% in 1981 to \$397.4 million.

Energy

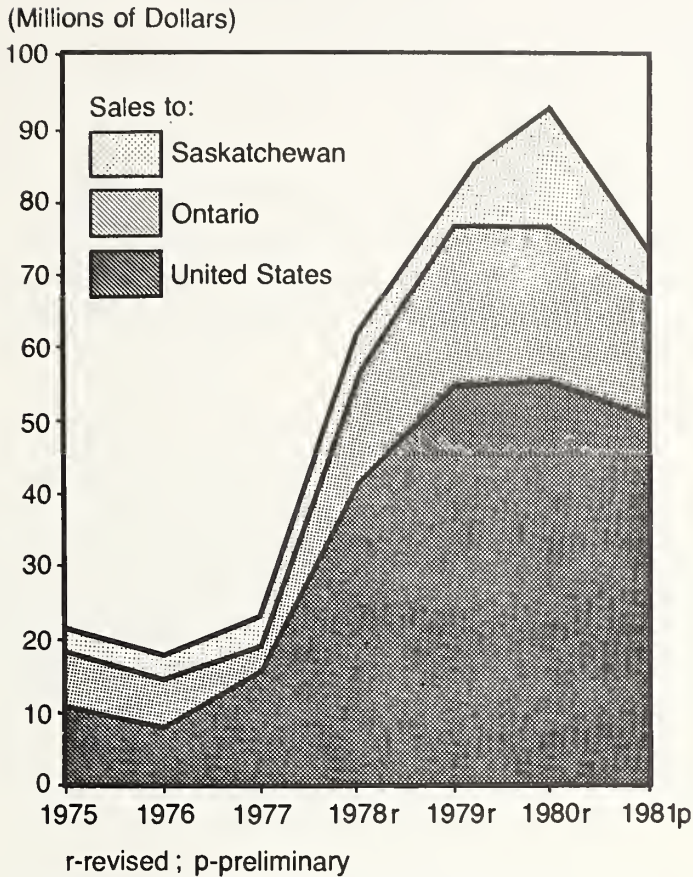
Above normal temperatures in 1981, combined with increased conservation efforts and higher prices of petroleum products, resulted in declines in the volume of sales of petroleum and natural gas. Consumption of natural gas fell 4.8% from 1,783 billion cubic meters in 1980 to 1,697 billion cubic meters in 1981 with petroleum falling 6.1% from 3,323.9 million cubic meters to 3,122.2 million cubic meters for the same time period. The use of electricity rose by 1.0% and coal consumption increased 7.5%.

Electrical energy, generated almost entirely from Manitoba's renewable hydro resources provides approximately 20% of total energy requirements in the province. Manitoba Hydro estimates that hydraulic generation would have been 13% greater in the last nine months of 1981 if average water conditions had prevailed, however, it is expected that water levels will return to normal or near-normal in 1982. Unfavourable water levels contributed to a 20% decline in hydro sales outside the province, from \$93.6 million in 1980 to \$74.4 million in 1981.

Manitoba has among the lowest electricity rates in Canada for almost all types of service. For example, in January, 1982 a resident in Winnipeg consuming 750 kilowatt hours in a month would pay \$24.53, while similar service in Vancouver cost \$32.15, in Montreal, \$27.15 and in Saint John, \$39.56.

Manitoba Hydro's rehabilitation work continued ahead of schedule at Seven Sisters and Great Falls Generating Stations along the Winnipeg River in 1981.

Manitoba Hydro Extraprovincial Sales, 1975-81



Source: Manitoba Hydro Electric Board

Forecast normal market growth indicates the need for additional generating capacity by about 1992. Earlier development may be needed to meet significant demands from new provincial or extra-provincial customers. Discussions are, for example, continuing towards concluding an agreement with Saskatchewan and Alberta for an electrical intertie involving construction of the 1,200 megawatt Limestone generating facility and associated transmission facilities. Advancing construction of Limestone would increase Manitoba Hydro's generating capacity from 3,924 megawatts to 5,124 megawatts, an increase of 31%. Discussions on the possible export of power are also underway with a number of potential customers in the United States.

Service Sector

The service sector comprises about 70% of total employment in the province and covers a wide variety of activities including essential transportation, communications and other public utilities; wholesale and retail trade; the finance, insurance and real estate industry; health care; education; the public administration activities of governments; and numerous professional and personal services, tourism, the arts, sports and recreational activities.

Manitoba has a well developed capacity to provide the services required for the functioning of a modern and diversified economy and to contribute to the standard of living and quality of life of the province's citizens. Nonetheless, problems remain in providing Manitobans with equitable access to a range of services and in broadening participation to include various groups in these activities.

Transportation and Communications

The Manitoba Department of Highways and Transportation expenditures on construction and maintenance for the year ending March 31, 1981 totalled an estimated \$125.6 million, an increase of 9.6% over 1979-80 construction and maintenance expenditure of \$114.6 million. The 1980-81 construction program of \$86.5 million involved 277 miles of grading, 350 miles of graveling, 295 miles of base construction and 195 miles of paving. Maintenance expenditures totalled \$39.1 million and consisted primarily of general maintenance on Provincial Trunk Highways and Provincial Roads. Estimates of construction and maintenance expenditure for the year ending March 31, 1982 are \$135.6 million, an increase of 7.9%.

January, 1981 motor vehicle registrations (excluding commercial vehicles, trailers and snowmobiles) increased 1.9% from January 1980 to approximately 641,000. Commercial vehicle registrations rose 12.8% to 21,000, including 17,000 transport truck registrations.

In 1980 (the latest available statistics), 194 freight and household goods movers reported gross revenues of \$100,000 or more for a total of \$322.1 million and total employment of 5,600 persons. 1981 is estimated to have been an average year for intra-provincial haulers and an above average year for extra-provincial haulers.

Manitoba's four urban transit systems in Winnipeg, Brandon, Flin Flon and Thompson carried 61.9 million fare passengers in 1981, a decline of 3.4% from 1980's total of 64.1 million. Winnipeg's adult and student bus fares rose 50% and 66.7%, respectively, in 1981 which contributed heavily to the drop in transit usage. Provincial grants to the City of Winnipeg have enabled transit fares to be frozen for the next year. Operating revenues for Manitoba's urban transit systems increased 24.4%, to a total of \$21.9 million in 1981 in comparison to \$17.6 million in 1980.

The two major railways in Manitoba have combined main-line track of 5,643 kilometers. The Canadian National Railway maintains 3,244 kilometers of this track and expended \$43 million in 1981 for track and roadway maintenance in Manitoba. The Canada Pacific Railway spent \$6.6 million on capital projects, maintaining 2,399 kilometers of main-line track. Rail loadings, either destined for or originating in Manitoba, carried 9.6 million metric tonnes of revenue freight in 1981, a decrease of 0.5% and 6.4% from the quantity loaded in 1979 and 1980, respectively. Although the volume of traffic declined in 1980, railway revenues generated in Manitoba increased approximately 10% from \$132 million in 1979 to \$145 million.

The Provincial Government has urged the federal government to pursue other options than the removal of the Crow freight rates on grain which could exacerbate the problems faced by prairie farmers without ensuring the necessary upgrading of the transportation system.

Traffic through the prairie's only sea terminal, at Churchill, was 947,000 metric tonnes in 1981, an increase of 59% from 1980's total shipments of 594,000 metric tonnes.

Manitoba is served by approximately 61 registered air carriers providing scheduled and charter services to domestic and foreign destinations. There are 58 licensed airports in Manitoba with Brandon, St. Andrews, Thompson and Winnipeg airports comprising the vast majority of airport activity. Passenger and cargo volumes at the Winnipeg International Airport are estimated to have declined in 1981, although statistics are not available as yet. Total enplaned and deplaned passengers in 1980 at Winnipeg totalled 2.4 million, and 24,400 metric tonnes of cargo were carried either into or out of the Winnipeg International Airport.

Communications in Manitoba are provided by an extensive network of radio, television, cable and telephone services. At March 31, 1981 712,983 telephones were in operation. The Manitoba Telephone System has a combined staff of 4,700 throughout the province.

Currently there are 63 AM and FM radio stations operating in Manitoba with approximately 20 stations originating programs. Television network programming is provided by three broadcast companies from 54 stations with 8 having programming capabilities. Through approximately 50 cable systems, cable television is quickly becoming available to more Manitobans in both southern urban and rural areas as well as isolated northern communities.

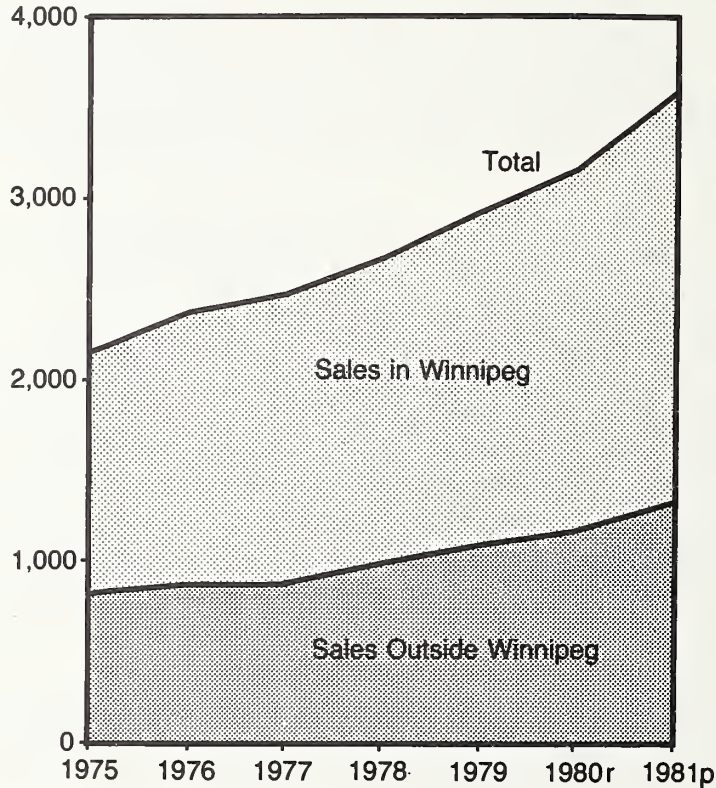
Retail Sales

The value of retail sales in Manitoba increased to \$3,567.3 million in 1981, an advance of 12.8% from 1980 and an

improvement from the 1980 rate of growth of 7.8%. The increase in 1981 was slightly above the national average of 12.5%, and was more evenly spread over the year than was the national growth in sales which registered a substantial deceleration due to the recession in the latter part of the year.

Value of Retail Sales, Manitoba, 1975-81

(Millions of Dollars)



r-revised; p-preliminary

Source: Statistics Canada

The strong improvement in agricultural crop production in Manitoba contributed to an advance in retail sales outside of Winnipeg of 13.6%, from \$1,166.6 million in 1980 to \$1,325.5 million in 1981. In Winnipeg, retail sales increased at a slightly more moderate 12.2% in 1981 to a total of \$2,241.8 million, up from \$1,997.3 million in 1980. In 1980, sales had increased faster in Winnipeg, 8.4%, than the 6.6% recorded in other areas of the province.

High interest rates contributed to dampened demand in certain sectors of retail trade, particularly automobiles where sales increased a

modest 5.3%. Consumers' decisions to delay the purchase of new automobiles while continuing to operate and repair their present vehicles, along with higher gasoline prices, were reflected in the sales of service stations and garages which rose about 50%. Other areas of strong growth were household appliances, sporting goods and accessories, book and stationery stores, shoe stores, and personal accessories stores. Sales at super markets, which comprise nearly 20% of total retail sales, increased 15.2% in 1981.

Finance and Insurance Services

The finance and insurance industry has a long history in Manitoba, rooted in the early development of the prairie grain economy. The industry offers a wide array of services including banking, property and life insurance, and security and commodity exchanges. Winnipeg is the national and international headquarters of several investment and insurance houses. The Winnipeg Commodity Exchange, established in 1887, includes the only grain exchange in Canada, and is a major centre for trading in cereal grains, oilseeds, precious metals and financial futures.

Financial services in Manitoba include 114 credit unions and 29 caisses populaires. Approximately one-third of all Manitobans are members of the credit union-caisses populaires system. The credit unions employ over 1,200 people and represent the largest pool of investment money controlled by Manitobans. Total assets rose 2.5% from \$1,283 million in 1980 to \$1,315 million in 1981. The recession and high interest rates have put significant direct pressure on local credit unions and caisses populaires. In order to help stabilize the system and assure continued growth, the Government plans to advance \$29.5 million in interest-free loans to the Credit Union Stabilization Fund and Le Fonds de Securite of the Caisses Populaires.

Manitoba is also served by all of Canada's major chartered banks. In the third quarter of 1981 the banks' total Manitoba assets were up 11.9% from the third quarter of 1980, to \$7,839 million, while total Canadian assets and liabilities of the chartered banks rose 30.8% to \$341,985 million. Included in the assets are business loans by chartered banks which increased 23.6% to \$2,196 million in Manitoba, while business loans in Canada increased 40.2% to \$72,066 million. Total liabilities of the chartered banks in Manitoba rose 14.8% from the third quarter of 1980 to \$7,158 million in the third quarter of 1981. Within the liabilities total, personal savings in Manitoba increased 20.6% to \$4,349 million while personal savings in Canada increased 19.5% to \$87,921 million for the same time period.

A total of \$197.8 billion in cheques were cleared through Manitoba's two clearing houses last year, an increase of 23.2% from \$160.6 billion in 1980. The increase was close to the national increase of 24.3%, from \$5,375 billion in 1980 to \$6,682 billion in 1981.

In 1981, total new capital investment in finance and commercial services declined 25.3% to \$224.5 million from \$300.5 million in 1980. This decline follows two years of strong growth of 44.1% and 11.3% in 1979 and 1980, respectively. New capital intentions for 1982 are expected to remain at approximately the 1981 level of \$224 million. The Great West Life Assurance Company has commenced construction, scheduled for completion in mid-1983, of a \$40 million, 346,000 square foot office building to serve as its new Canadian headquarters. The Bank of Montreal has announced construction to begin during 1982, of a new 25 storey regional headquarters.

Tourism

Manitoba's tourist industry experienced its third consecutive year of moderate growth in 1981 with travel expenditures increasing by an estimated 13.8% to \$468.1 million, following increases of 13.6% in 1980 and 10.1% in 1979. Non-resident expenditures increased 16.7% from \$153.6 million in 1980 to \$179.3 million in 1981.

However, growth in the number of non-resident visitors decelerated to a 3.3% increase in 1981 from a 6.8% rise in 1980. The number of non-resident tourists to Manitoba totalled 3.1 million in 1981, of which 2.0 million were from other provinces in Canada, 959,000 from the United States and 69,000 from overseas. The number of American visitors declined slightly, by about 0.2% and visitors from other parts of Canada and overseas visitors increased by 4.9% and 3.6%, respectively.

The lower value of the dollar in relation to the American dollar encouraged Canadians to vacation within Canada, contributing to an increase in visitors to Manitoba from other parts of the country. The decline in the number of American visitors reflects fewer east-west trips by United States residents across Manitoba, rather than a decline in north-south "destination" traffic into Manitoba. With the relatively high price of fuel, Americans visiting Canada are increasingly focusing their vacation travel on specific destinations rather than on long cross-country motoring vacations, popular in times of cheaper transportation costs.

Convention activity declined sharply in 1981 with a 31.9% drop in the number of convention delegates to the City of Winnipeg. Conventions drew 81,000 delegates to Winnipeg in 1980 and 55,200 delegates in 1981. The outlook for 1982 is encouraging with confirmed bookings of 76,000 delegates as of March, 1982. The rebound expected in 1982 suggests that the decline in 1981 may have reflected mainly a coincidence of cycles in the location of major national conventions which move from one region of Canada to another on a rotational basis.

Manitoba's hotels, motels, lodges and resorts recorded a 3.3% increase in the number of room-nights sold in 1981, to 2.6 million from 2.5 million in 1980. Occupancy rates increased from 57.0% in 1980 to

58.5% in 1981. Construction of a new \$35 million, 350-room hotel facility in Winnipeg was announced in 1981 to come on stream in 1985.

The outlook for 1982 suggests another year of moderate growth for tourism in Manitoba. Manitoba's advantages in water-oriented tourism and recreation resources, special events and cultural resources provide a favourable environment for tourism.

The province's tourism marketing plan for 1982 will be targetted to stimulating increased growth in travel from neighbouring provinces and to increasing the length of stay of United States visitors. In addition, specialty markets in more distant areas will continue to be pursued.

Development in the industry is expected to increase in 1982 with the implementation of the capital development programs contained in the Canada-Manitoba Subsidiary Agreement on Tourism Development.

OUTLOOK

In a Canadian context of severe recession and recovery prospects which are likely to result, at best, in flat economic performance in the current year, Manitoba is expected to achieve modest increases in employment and real output, and record a second year of above average growth.

The modest growth anticipated in Manitoba in 1982 derives in part from a carry-over of strength imparted by the sharp up-turn in agricultural crop production which led growth in the province in 1981. Gains are anticipated in the transportation, wholesale and retail trade and other industries as last year's crop is moved to markets and incomes are received by Manitoba's farmers. As well, the province's broadly based, diversified economic structure provides a degree of stability, against the volatility of national and international business cycles, which was evident in the economic statistics for the second half of 1981 and in early 1982.

Nonetheless, despite some apparent optimism in the recent indicators and in the short-term outlook, there is concern that the past number of years of relatively stagnant economic conditions in the province has eroded the economy's basic strengths to some extent, and that a period of renewal and rebuilding will be required to ensure achievement of the province's longer term economic potential. The newly elected Provincial Government is committed to undertaking a program of activist economic and social development in cooperation with the private sector of the economy in order that all Manitobans may share in the development potential of the province's vast land, water and mineral resource bases.

ECONOMIC STATISTICS - MANITOBA

	1977r	1978r	1979r	1980r	1981p	Percentage Growth Rates				
						1977/ 1976	1978/ 1977	1979/ 1980	1980/ 1979	1981/ 1980
Gross Provincial Product: (\$ millions) -----	8,610	9,400	10,380	11,160	12,800	8.2	9.2	10.4	7.5	14.7
Sectoral Indicators:										
Agricultural Production (\$ millions)-----	1,209.0	1,517.0	1,580.0	1,667.0	2,000.0	11.6	25.5	4.2	5.5	20.0
Manufacturing Shipments (\$ millions)-----	2,818.4	3,281.6	3,916.1	4,298.6	4,860.6	1.9	16.4	19.3	9.8	13.1
Mineral Production (\$ millions)-----	568.7	467.8	652.7	820.6	679.7	10.4	-17.8	39.5	25.7	-17.2
Electric Power Available (millions of kwh)-----	14,503.0	18,423.0	21,486.0	20,453.0	19,490.0	-4.5	27.0	16.6	-4.8	-4.7
Housing Starts (units)-----	9,410.0	12,121.0	5,772.0	2,597.0	2,824.0	0.8	28.8	-52.4	-55.0	8.7
Retail Trade (\$ millions)-----	2,474.1	2,687.8	2,935.9	3,163.9	3,567.3	4.4	8.6	9.2	7.8	12.8
Gross Tourism Expenditures (\$ millions)-----	332.7	341.5	376.0	427.0	486.1	0.4	2.6	10.1	13.6	13.8
Incomes:										
Farm Cash Receipts (\$ millions)-----	899.3	1,132.1	1,308.4	1,451.7	1,621.5	0.5	25.9	15.6	11.0	11.7
Total Personal Income (\$ millions)-----	7,059.0	7,759.0	8,372.0	9,133.0	10,850.0	9.1	9.9	7.9	9.1	18.8
Personal Disposable Income (\$ millions)-----	5,939.0	6,661.0	7,179.0	7,755.0	9,190.0	10.0	12.2	7.8	8.0	18.5
Average Weekly Wages and Salaries (\$)-	226.3	239.7	259.0	283.2	314.3	8.5	5.9	8.0	9.3	11.0
New Capital Investment:										
Total (\$ millions)-----	1,897.3	2,018.0	2,040.9	2,024.1	2,282.1	4.7	6.4	1.1	-0.8	12.7
Private Sector (\$ millions)-----	1,138.0	1,385.6	1,463.4	1,447.6	1,616.5	7.2	21.8	5.6	-1.1	11.7
Public Sector (\$ millions)-----	759.3	632.4	577.5	576.5	665.6	1.2	-16.7	-8.7	-0.2	15.5
Population:										
June Estimates (thousands)*-----	1,028.1	1,031.7	1,029.6	1,025.6	1,026.2	0.6	0.4	-0.2	-0.4	0.1
Labour Force (Annual Averages):										
Labour Force (thousands)-----	456.0	471.0	478.0	486.0	492.0	2.0	3.3	1.5	1.7	1.2
Employment (thousands)-----	429.0	440.0	453.0	459.0	462.0	0.7	2.6	3.0	1.3	0.7
Participation Rate (%)-----	61.7	63.1	63.7	64.6	65.0	-	-	-	-	-
Unemployment rate (%)-----	5.9	6.5	5.4	5.5	6.0	-	-	-	-	-
Consumer Price Index:										
Winnipeg (1971 = 100 - Annual Averages)-----	162.7	176.5	192.7	211.9	235.5	8.0	8.5	9.2	10.0	11.1

r-Some data have been revised in accordance with updated Statistics Canada information; p-preliminary estimates.

*Census count 1981; Preliminary intercensal estimates, 1977 to 1980.

Source: Statistics Canada CANSIM and Manitoba Department of Finance.

APPENDIX III

FURTHER INFORMATION ON TAXATION ADJUSTMENTS:

- A. DETAILS OF TAX CHANGES
- B. THE MANITOBA LEVY FOR HEALTH AND POST-SECONDARY EDUCATION
- C. THE MANITOBA SURTAX ON HIGHER INCOMES

Appendix III.A

DETAILS OF TAX CHANGES

The following summary was prepared to provide a more detailed description of the changes outlined in the Budget Address. Comparisons with other provinces cite information available as of May 10, 1982.

INSURANCE PREMIUMS TAX (Annual Revenue Impact +\$2.8 million)

The insurance premiums tax rate on insurance other than sickness, accident and life insurance will be increased from 2% to 3% effective for the 1982 taxation year. This change brings the Manitoba rate in line with the rates applicable in Newfoundland, Nova Scotia, New Brunswick, Quebec and Ontario.

CORPORATION CAPITAL TAX (Annual Revenue Impact +\$2.2 million)

Rate for Banks Increased

The special capital tax rate applicable to banks will be increased from 0.8% to 2.0% effective for taxation years ending after June 30, 1982. This change brings the special Manitoba rate in line with British Columbia's. The measure is expected to increase annual revenues by \$2.6 million.

Small Business Exemption Increased

The small business exemption under the Corporation Capital Tax Act will be increased by one-third from \$750,000 to \$1 million effective for taxation years ending after June 30, 1982. Small businesses will save an estimated \$400,000 annually.

FUEL LEVIES (Annual Revenue Impact +\$1.4 million)

Diesel Fuel - General Rates

The general diesel fuel tax levy under the Motive Fuel Tax Act will be increased to 115% of the gasoline levy effective June 1, 1982. The change recognizes the higher energy content of diesel fuel and restores the historical differential which existed in Manitoba prior to

the conversion of fuel levies to an ad valorem basis in 1980. As a result, the general diesel fuel tax rate will increase from 5.7¢ a litre to 7.3¢ a litre, lower than the current rates applicable in all provinces other than British Columbia, Alberta and Saskatchewan.

Diesel Fuel - Preferential Rates

The preferential rates for off-highway uses will increase proportionally with on-highway use effective on June 1, with the exception of the tax on commercial heating oil and bunker fuel which will remain unchanged. (Domestic purchasers remain fully exempt on all heating purchases). The increases, together with the remaining preference or advantage relative to road uses, are outlined below.

	<u>Current Rate</u> ¢/litre	<u>June 1, 1982 Rate</u> ¢/litre	<u>Preference</u> ¢/litre
Off Highway Use	4.3	5.5	1.8
Railway Locomotive	3.8	4.8	2.5

Gasohol Exemption

The gasohol exemption currently provided under the Gasoline Tax Act will be set at 4¢ per litre effective September 1, 1982. This restores the gasohol preference to the same level provided in 1980. Manitoba is the only province to provide preferential treatment for gasohol.

Freeze on Fuel Levies

The tax rates on gasoline and motive fuels will, after the above adjustments, be frozen at current levels for the remainder of this fiscal year. They will not be increased automatically under the ad valorem system and will save Manitobans \$8.5 million in the remainder of this fiscal year.

TOBACCO TAX (Annual Revenue Impact +\$10 million)

The tobacco tax rate will be increased from 1.4¢ per cigarette to 1.8¢ per cigarette effective midnight, May 30, 1982. Comparable increases will apply on other tobacco products.

SALES TAX (Annual Revenue Impact -\$2.6 million)

- ° The restaurant meal exemption will be increased from \$4.00 to \$6.00 effective May 12, 1982. The enhanced exemption is expected to reduce annual revenues by \$1.4 million.
- ° The commission paid to small vendors will be increased by 50% from 10% to 15% of the first \$200 in monthly collections effective June 1, 1982. This change will assist up to 15,000 businesses whose average monthly taxable sales do not exceed \$4,000. The commission rate on taxable sales over \$4,000 (tax collections of over \$200) will remain at 1%. This measure is expected to provide collectors with an additional \$1 million annually.
- ° The exemption for thermal insulation materials will be extended to include insulated doors, and door dock seals effective May 12, 1982.
- ° The exemption for fire trucks and related equipment will be extended to all purchasers effective May 12, 1982.
- ° The exemption for wood used for heating purposes will be extended to all users effective May 12, 1982.
- ° The sales tax refund provisions on transactions involving motor vehicles will be extended to apply the tax to the "net" purchase price taking into account all related vehicle transactions. Currently, the refund is permitted on a "one for one" basis with the result that people selling two cars to purchase one can claim the refund for only one vehicle. The change provides totally comparable treatment with vehicle trade-ins where the tax applies on the net purchase price.
- ° The application of the sales tax to advertising brochures, sample products and give-aways will be clarified in light of recent judicial decisions in other provinces.

INCOME TAXATION (Annual Revenue Impact +\$11.7 million)

Personal Income Tax Surtax

A special surtax will apply to all higher income Manitobans effective for the 1982 taxation year. The surtax is calculated at a rate of 20% of basic provincial tax on taxable incomes over \$25,000. The maximum surtax is 3.7% of the excess taxable income. The surtax is expected to increase annual revenues by \$16.2 million.

See Appendix C for further information.

Small Business Corporation Income Tax Rate Reduced

The special corporation income tax rate on the Manitoba portion of taxable income eligible for the federal small business deduction under Section 125 of the Income Tax Act (Canada) will be reduced from 11% to 10% effective January 1, 1982. The reduction means an annual decrease in income taxes faced by small businesses of about \$3.5 million.

For corporations with taxation years partly in 1981, the taxable income will be prorated and the lower rate applied on the basis of the number of days in the 1982 taxation year falling after December 31, 1981.

Prior to the change, small business corporations in Manitoba faced the second highest rate in Canada. Following the change, the Manitoba rate will be the same as applied in Saskatchewan, Ontario, Nova Scotia, and Prince Edward Island and a lower rate will apply in only four provinces.

Small Business Rate Broadened for Credit Unions

The benefits of the small business rate for credit unions will be broadened to include income eligible for the reduced federal rate under Section 137(3) of the Income Tax Act (Canada). This change is "housekeeping" in nature and intended to clarify the application of the current provision. It will be retroactive to January 1, 1976.

Capital Gains Tax Rebates for Farmers

Manitoba will provide farmers with rebates of the provincial income tax arising from eligible taxable capital gains. The Manitoba program will be patterned after a similar program in effect in

Saskatchewan with one important exception: the maximum eligible taxable capital gains in Manitoba will be \$100,000, implying a total capital gain of \$200,000, compared with the current Saskatchewan maximum eligible taxable capital gain of \$50,000. The program involves potential benefits to Manitoba farmers in the order of \$1 million annually.

Other program parameters include:

- taxpayers will be allowed a capital gains tax rebate on the sale of one farm during their lifetime;
- the rebate will be restricted to bona fide farmers; that is they must have received more than half their total income from farming in four of five consecutive years since 1971 or they must have owned and actively operated the farm in question for at least ten years;
- since the program is intended to assist in maintaining the family farm the rebate will apply only on sales to individuals intending to carry on as a family farm.

This measure is effective on all land dispositions after December 31, 1981. The program will be administered by the Province. Since it will not be possible to calculate the provincial income tax arising from eligible taxable capital gains until after 1982 income tax returns are filed and assessed, rebates cannot be processed until that time.

Additional information and application forms will be available later this year.

LEVY FOR HEALTH AND POST-SECONDARY EDUCATION (Annual Revenue Impact
+\$110 million)

This is a new levy designed to finance part of the costs of health and education. The levy is 1.5% of the total compensation paid to employees by all Manitoba employers. It applies to employers only and not to any individual employee.

The levy will be effective on July 1, 1982 for all employers except local governments, municipalities and school divisions, whose budgets and revenue raising decisions are already finalized for 1982. Local governments will commence paying the levy effective January 1, 1983.

See Appendix B for further information.

Appendix III.B

THE MANITOBA LEVY FOR HEALTH AND POST-SECONDARY EDUCATION

This background paper describes the new Levy for Health and Post-Secondary Education which takes effect July 1, 1982. It outlines the Government's reasons for introducing the Levy -- which will apply to employers, not to individual Manitobans -- instead of an increase in the sales tax rate. The paper also outlines the major factors which made it essential for the Province to seek additional revenues this year.

INTRODUCTION

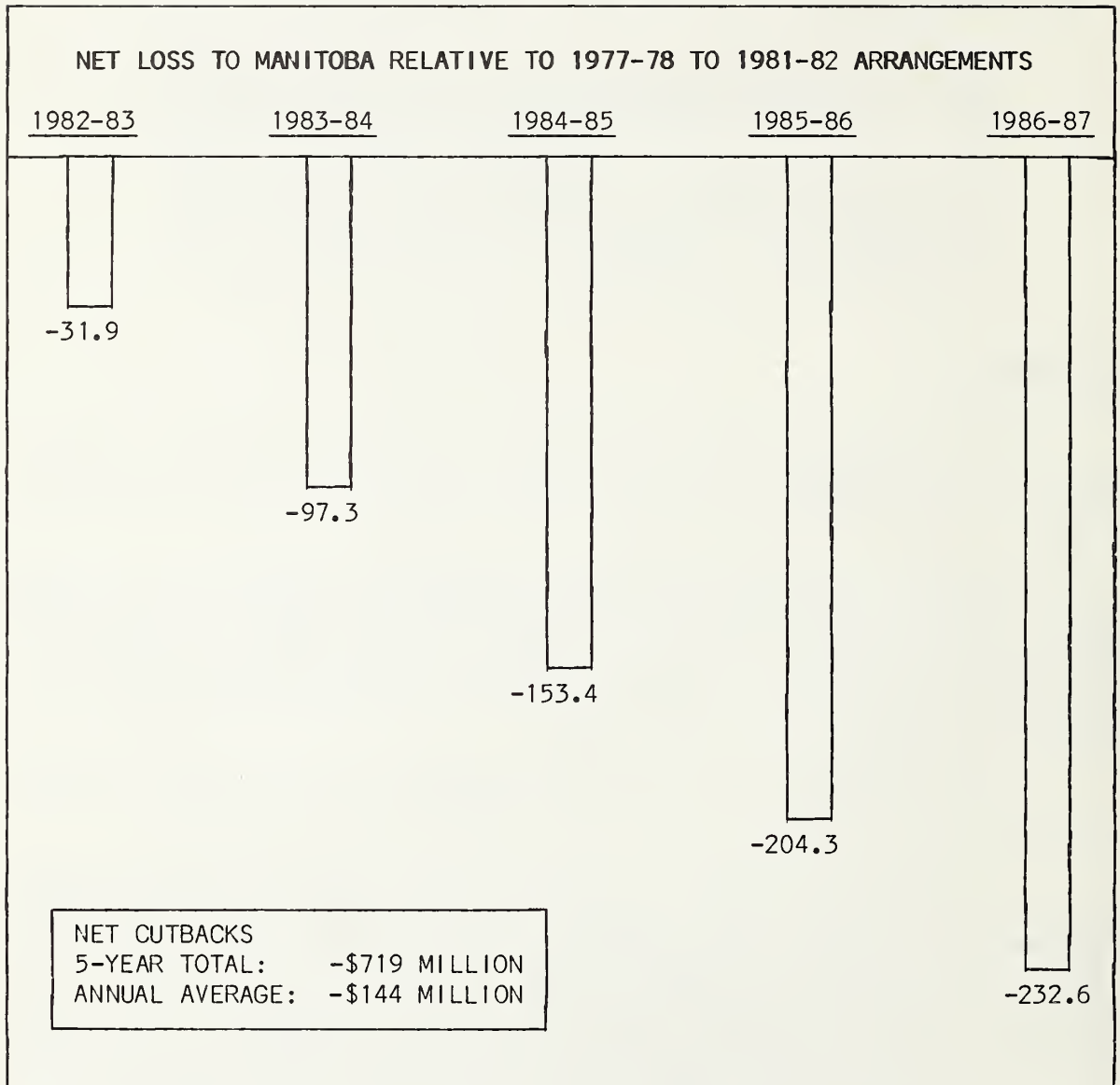
High standard health and education programming are two of the fundamental building blocks on which the overall quality of life in Manitoba is based.

The task facing the Government and people of Manitoba in maintaining and improving these services is considerable. Over half the total Budget of the Province is devoted to these priority areas, with the Provincial commitment increasing by \$256 million in 1982/83 alone. Moreover, it is certain that health and education programs will require escalating public sector contributions in the years ahead.

The challenge is all the more difficult in light of the Province's inherited deficit, now estimated at about \$252 million for 1981/82.

In addition, cutbacks in federal transfer payments have compounded the problem facing Manitoba in meeting its commitments. Under new Fiscal Arrangements, Manitoba faces escalating reductions in federal support for health, higher education and equalization -- rising from a net loss of \$31.9 million in 1982/83 to a net yearly loss of \$232.6 million by 1986/87, both compared to potential receipts under the previous arrangements. The aggregate net loss facing the Province over the next five years is \$719.3 million, for an average annual loss of over \$140 million. The losses are summarized in the following chart.

FEDERAL CUTBACKS IN FUNDING FOR HEALTH,
POST-SECONDARY EDUCATION AND EQUALIZATION
(MILLIONS OF DOLLARS)



The inevitable result is that additional Provincial revenue is required to maintain essential programs and services at adequate and acceptable levels, particularly in the health and education fields.

MAJOR OPTIONS

The difficult question facing the Government in formulating its 1982 Budget was how to secure the required added revenue with the least disruption for Manitobans and the least impact on the Manitoba economy.

Only two major options appeared to have the potential to meet Manitoba's requirements.

First: A major increase in the sales tax which would affect all purchases of taxable commodities and services in Manitoba.

Second: A more broadly based **Levy for Health and Post-Secondary Education** - equivalent to a percentage of total wages and salaries - applicable to all employers, a levy which, by virtue of its universal application, would not impose a disproportionate share of the burden on some sectors, and which constitutes a deductible expense for federal and provincial income tax purposes.

Each of these options was examined in detail from a number of different perspectives with a view to gaining as full an appreciation as possible of their relative impacts.

INTERPROVINCIAL COMPARISONS

All provinces, with the exception of Alberta, currently apply sales taxes. Quebec is the only province to apply a specific levy on employers for health financing. Ontario, Alberta and British Columbia have specific health premiums in place which, though applicable to individuals, are, according to Ontario's analysis, generally paid by employers as part of the total compensation package.

Following is a summary comparison of the retail sales tax rates currently in effect, together with an indication of the potential costs to an employer inherent in the health-related levies in place in the other provinces. The health-related levies are calculated on the basis of family premium structures.

INTERPROVINCIAL COMPARISONS - SALES TAXES AND HEALTH TAXES										
	<u>Nfld.</u>	<u>P.E.I.</u>	<u>N.S.</u>	<u>N.B.</u>	<u>Que.</u>	<u>Ont.</u>	<u>Man.</u>	<u>Sask.</u>	<u>Alta.</u>	<u>B.C.</u>
Sales Tax (%)	11	10	10	8	8	7	5	5	-	6
Health Levy Employer Cost (% of Compensation Paid)										
° At \$15,000 Annual Compensation	-	-	-	-	3.0	3.68	-	-	1.52	2.56
° At \$20,000 Annual Compensation	-	-	-	-	3.0	2.76	-	-	1.14	1.92
° At \$25,000 Annual Compensation	-	-	-	-	3.0	2.21	-	-	0.91	1.54
NOTE: Does not reflect 1982 Budgets for Newfoundland, Quebec, Ontario, Manitoba or Saskatchewan.										

It may also be worth noting that employers' payments of Workers' Compensation premiums, Unemployment Insurance premiums and Canada Pension Plan contributions are similar in principle to the **Levy for Health and Post-Secondary Education**, except that they entail flat maximums per employee. Thus, these levies represent a larger cost in percentage terms for the employer in low wage sectors relative to high wage sectors.

IMPACT ON PEOPLE

Sales Tax Increase

A general increase in the Provincial sales tax would apply to all purchases of taxable commodities and services in Manitoba. Currently, exemptions are provided for a large range of essential purchases, including food, children's clothing and footwear, accommodation and medicines. However, the sales tax continues to apply to many frequently-purchased items including, for example, adults' clothing and footwear, furniture and appliances, hydro and telephone bills, pens, pencils and crayons, soaps, perfumes and deodorants, dry cleaning, brushes and combs, etc.

Manitoba's Cost of Living Tax Credit, introduced in 1974, continues to help offset the burden of sales taxes on low and moderate income Manitobans. However, these examples of items to which the sales tax continues to apply underscore the potential impact of a general sales tax increase on the average Manitoban, and on pensioners and others living on low incomes.

Available information on the spending habits of Manitobans, also suggests that the sales tax itself, without the Cost of Living Tax Credit offset for low and moderate income earners, is a somewhat regressive levy. In other words, low income Manitobans spend a higher proportion of their income on sales taxable items than do higher income Manitobans. This is illustrated in the following table.

MANITOBA SALES TAX AS A PERCENTAGE OF FAMILY INCOME*		
Family Income \$		Current Sales Tax as % of Income
Under	- 6,000	1.87
6,000	- 8,000	1.68
8,000	- 12,000	1.90
12,000	- 16,000	1.77
16,000	- 20,000	1.69
20,000	- 25,000	1.66
25,000	- 30,000	1.67
30,000	- 35,000	1.52
Over	- 35,000	1.47

* Estimates based on Statistics Canada's 1978 Urban Family Expenditure Survey.

Again, the above table does not take the Cost of Living Tax Credit into account. However, it leads to the conclusion that a sales tax increase on its own would be regressive and that significant compensating measures such as additional exemptions or Cost of Living Tax Credit increases would be required to ensure that such an increase would not become an unfair burden to lower income Manitobans. Such compensating measures would be quite costly from a revenue perspective and undercut the achievement of the necessary additional revenues.

Levy for Health and Post-Secondary Education

The **Levy for Health and Post-Secondary Education** would apply only to employers. No employee would be required to pay the tax. Moreover,

unlike the sales tax on individuals, the **Levy for Health and Post-Secondary Education** on employers is a deductible expense for federal and provincial income tax purposes with the net impact on the employer being cushioned substantially.

It might be argued that part of the costs of the **Levy for Health and Post-Secondary Education** could be passed on to employees in reduced wage settlements. However, if some shifting is assumed, and that is largely hypothetical, the effects of the **Levy for Health and Post-Secondary Education** by income grouping appear to be superior to the sales tax option. This is illustrated in the following table.

1.5% LEVY FOR HEALTH AND POST-SECONDARY EDUCATION AS A PERCENTAGE OF FAMILY INCOME*				
Family Income Group		If Fully Absorbed By Employer	If Half The Levy Shifted To Employee	If The Entire Levy Shifted To Employee
\$		%	%	%
Under	- 6,000	Nil	0.29	0.59
6,000	- 8,000	Nil	0.20	0.40
8,000	- 12,000	Nil	0.35	0.68
12,000	- 16,000	Nil	0.44	0.88
16,000	- 20,000	Nil	0.52	1.03
20,000	- 25,000	Nil	0.57	1.14
25,000	- 30,000	Nil	0.59	1.18
30,000	- 35,000	Nil	0.62	1.24
35,000	and Over	Nil	0.60	1.19

* Estimates based on data developed from Revenue Canada's Taxation Statistics

The apparent progressivity of the **Levy for Health and Post-Secondary Education** arises because lower income groups - those with incomes under \$12,000 in the above table - derive most of their income from other than employment sources (pensions, transfer payments, etc.). In contrast, employment earnings for the other groupings generally rise with incomes to the point where roughly 80% of total income in the top three groupings is derived from employment sources.

Of course, the above comparisons are hypothetical inasmuch as it is felt unlikely that significant shifting of the Levy to employees would occur. But, on the hypothesis that some shifting did take place, the resulting impacts appear preferable to the sales tax option on equity grounds.

IMPACT ON THE BUSINESS COMMUNITY

General

Attempts to quantify the relative impacts of alternative revenue raising options for the business community in Manitoba, as in any jurisdiction, are subject to considerable uncertainty. However, a number of general conclusions are possible.

The Government's consultations with Manitoba business suggest that there is a strong preference for levies which are income tax deductible as opposed to those which are non-deductible. As well, there appears to be widespread recognition of the desirability of spreading the burden as fairly as possible among all sectors of the economy. Both these kinds of broad considerations were given careful attention in the evaluation of the two major options open to the Province at this time.

In general, to the extent that the revenue requirement could be met through direct and indirect federal payments, the lower the net burden which of necessity must be borne by Manitobans. Analysis of the **Levy for Health and Post-Secondary Education** suggests that the federal government will make a more substantial contribution under this Levy with the result that the potential costs to Manitoba taxpayers will be correspondingly reduced. This is illustrated below.

SALES TAX AND LEVY FOR HEALTH AND POST-SECONDARY EDUCATION ILLUSTRATION OF NET COSTS TO MANITOBA TAXPAYERS		
	2% Sales Tax	1.5% Levy for Health and Education
	(\$ millions)	(\$ millions)
Gross Annual Revenues	120	110
Deduct:		
- Potential Federal Income Tax Offset ¹	12	28
- Direct Federal Payments	-	8
Equals:		
Potential Net Cost to Manitoba Taxpayers	108	74
¹ Assumes an average federal income tax rate of 25%, and that 40% of sales taxable items are for business consumption.		

The specific "net costs" in the above example are, of course, illustrations and may differ in some respects from the ultimate result. They do, however, support the conclusion that federal offsets are significantly larger under the **Levy for Health and Post-Secondary Education** and the net cost to Manitoba taxpayers correspondingly lower than under the sales tax approach.

Similarly, the **Levy for Health and Post-Secondary Education** involves the broadest possible sharing of the burden across sectors of the Manitoba economy. For each employer, the Levy represents 1.5% of the total wage and salary bill. At 1.5%, the Levy represents about one-eighth of recent average annual increases in wages and salaries. For employers paying an average wage and salary of \$5.00 per hour, the Levy is equivalent to 7 1/2¢ an hour before taxes. For an employer facing a combined federal and provincial corporation income tax rate of 52.8%, the after tax cost would be about 3 1/2¢ an hour.

In contrast, a sales tax increase which, it could be argued, is much more tightly targetted in terms of the types of sectors and specific businesses to which it does or does not apply, can involve a more significant impact on the businesses so affected and could be relatively harsh in some circumstances. For example, for a hardware store which generally sells only taxable items, the sales tax increase could entail over 8 times the costs of the 1.5% **Levy for Health and Post-Secondary Education**. The same is true for many retail stores. Perhaps more important for many businesses is the fact that a general increase in the sales tax could have a particularly dampening effect on consumer markets in the Province.

Specific Sectors

The sales tax contains a number of significant exemptions and does not apply in a major way to a number of sectors. As a result, a sales tax increase would concentrate the full burden of raising the required revenues on limited segments of the Manitoba economy. Initially, the retail sales sector would be the major contributor, unless consumers bear the entire costs.

In contrast, the **Levy for Health and Post-Secondary Education** entails a broader application across all sectors, with the result that no specific sector of the economy is asked to make what might be regarded as an unduly significant or burdensome contribution.

This point is underscored in the following illustrations of the relative financial impacts of the sales tax and **Levy for Health and Post-Secondary Education**. The illustrations are based on Statistics Canada information on retail sales in Manitoba in 1981 and information contained in Corporation Financial Statistics for the latest available year, 1979.

**CALCULATIONS OF FINANCIAL IMPACT: 2% SALES TAX INCREASE AND 1.5% LEVY
FOR HEALTH AND POST-SECONDARY EDUCATION, MANITOBA, 1981
(\$ THOUSANDS)**

	Financial Impact Of	
	2% Sales Tax	1.5% Levy for Health and Post-Secondary Education
Retail Sector:		
	(applied to total sales)	(applied to total compensation payments)*
Motor Vehicle Dealers	12,930	740
Hardware Stores	480	50
Department Stores	10,350	1,360
Adult Clothing Stores	1,580	200
Furniture Stores	1,580	150
Shoe Stores	530	70
Food Stores	1,820**	1,310

* Based on the Canada-wide ratio of wages and salaries to total sales, 1979.

**Assumes an average of 10% of sales are taxable, based on sales tax records.

NOTE: Sales tax calculations do not take into account sales tax payments on taxable items used by the business and may therefore understate the financial impact of the sales tax approach.

SOURCE: Statistics Canada's Corporation Financial Statistics, 1979, 61-207 and Retail Trade, 63-005.

In general, the above analysis suggests that the sales tax increase options would be far more costly to various subsectors of the retail sector than the **Levy for Health and Post-Secondary Education**. This fact leads to the conclusion that the **Levy for Health and Post-Secondary Education** would have a much less significant impact on these sectors than the sales tax increase option. Even for the food stores sector, the **Levy for Health and Post-Secondary Education** appears significantly less costly than the sales tax increase if as little as 10% of total sales are subject to sales taxation.

It is somewhat more difficult to estimate the financial impacts of the two options on sectors other than retail trade. However, the fact that total sales are always greater than the total compensation paid to employees suggests that for all sectors producing a sales taxable product, a 2% levy on sales would be in excess of a 1.5% levy on the total compensation to employees.

One sector recognized to be among the most labour intensive is the garment industry, an important sector of the Manitoba economy. Although the calculation of the likely impact of the **Levy for Health and Post-Secondary Education** for this sector was relatively simple, estimation of the likely impact of a sales tax increase was somewhat more problematic since it depends on the extent, if any, to which a sales tax increase may be shifted back to manufacturers which in turn depends on specific market conditions. Accordingly, three illustrations of the potential sales tax impact were prepared - one, using an effective rate of 3% of sales in recognition of the possibility that the full retail sales tax might be passed back to manufacturers, in which case the impact would be greater than 2% of the manufacturers' sales; a second, assuming that an effective sales tax of 2% of sales was shifted back to the manufacturing level; and a third, recognizing that major portions of clothing sales are exempt (all children's clothing) and that less shifting may occur, assumed an effective rate of 1% of sales shifted back to the manufacturing level.

COMPARISON OF FINANCIAL IMPACT: 2% SALES TAX INCREASE AND 1.5% LEVY FOR HEALTH AND POST-SECONDARY EDUCATION, MANITOBA, 1981* (\$ THOUSANDS)				
Components Of Manufacturing Sector	1.5% Levy for Health and Post- Secondary Education	2% Sales Tax Increase At Assumed Effective Rates Of		
		<u>3%</u>	<u>2%</u>	<u>1%</u>
Women's Clothing	460	3,830	2,560	1,280
Other Clothing	690	4,910	3,280	1,640
Textiles	150	1,160	770	390
Knitting Mills	90	740	490	250
* Calculations based on value of Manitoba shipments for 1981 (Statistics Canada, 31-001) and ratio of wages and salaries to value of shipments and other revenue, 1979 (Statistics Canada, 31-203).				
NOTE: Sales tax calculations do not take into account sales tax payments on taxable items used by the business and may therefore understate the financial impact of the sales tax increase option.				

The above illustrations suggest that to the extent prospects for the garment industry will be influenced by the Province's taxing options, a **1.5% Levy for Health and Post-Secondary Education** applicable to the total

compensation paid to employees would be less of a burden than a general sales tax increase. Moreover, since the **1.5% Levy for Health and Post-Secondary Education** is equivalent to about 0.5% of recorded sales, in market conditions sufficiently strong that none of the sales tax would be shifted back to manufacturers, the industry would have little difficulty in passing the costs of the Levy onto the retail level, either in prices or in improved volumes.

It may be worth noting as well that Manitoba's clothing industry appears to enjoy a significant competitive advantage relative to other parts of Canada in respect of labour costs as reflected in average wages and salaries. This is shown in the following table.

AVERAGE WEEKLY WAGES AND SALARIES: CLOTHING INDUSTRY				
\$				
Year	Canada	Manitoba	Ontario	Quebec
1975	132.60	117.50	137.20	132.30
1976	147.90	132.40	149.20	148.40
1977	162.10	143.10	161.20	163.80
1978	175.80	156.60	171.70	179.00
1979	191.10	169.80	187.10	194.90
1980	207.20	177.90	204.10	211.80
1981 (Sept.)	233.20	203.40	231.60	236.70

SOURCE: Statistics Canada's Employment, Earnings and Hours #72-002.

The table also suggests that imposition of the proposed **Levy for Health and Post-Secondary Education** does not appear to involve a significant effect on this competitive position. At 1.5%, the Levy would increase weekly costs per employee by about \$3.00 per week in Manitoba. However, the Manitoba costs would remain:

- About \$26.80 less than the Canadian average
- About \$25.20 less than the Ontario average, and
- About \$30.30 less than the Quebec average.

In addition, both Ontario and Quebec also impose specific health financing levies.

More generally with respect to the manufacturing sector, the relative impacts of the sales tax increase and the **Levy for Health and Post-Secondary Education** largely depend on the extent to which the retail sales tax may be shifted back through wholesalers to the manufacturing level.

Available information indicates that a **1.5% Levy for Health and Post-Secondary Education** applied to the entire manufacturing sector in Manitoba would have amounted to approximately \$15 million in 1981 or about 0.3% of recorded sales of \$4,861 million. In contrast, a 2% sales tax on taxable sales would have amounted to about \$67 million or four and one-half times as much.

In addition to concerns regarding the adverse implications of the possible shifting of part of the burden of a sales tax increase back to manufacturers, the Government recognized the fact that the sales tax applies to production machinery and equipment and a variety of items used in the manufacturing process. Thus, the sales tax increase option entailed some major additional costs for this sector.

In summary, available information on specific sectors suggests that the **Levy for Health and Post-Secondary Education** would impact less heavily on a number of key sectors than a major sales tax increase. Of course, other sectors would be called upon to pay what could be regarded as a fairer share of the costs of health and education than under the sales tax approach. These would include banks and other financial institutions, the insurance industry, professionals, including lawyers and accountants, the entertainment industry, real estate operators and developers and the federal government.

Specific Businesses:

Following are a number of specific illustrations of the potential financial impacts of the two options. The illustrations were based on the relationship of wages and salaries to total income in Statistics Canada's Corporation Financial Statistics. To facilitate comparisons among the illustrations, the total income in each example was arbitrarily set at \$500,000. The sales tax impact estimates do not take into account the liabilities arising on such items as office equipment and supplies, telephone and hydro bills, etc., and may understate the liabilities inherent in the sales tax approach.

The illustrations suggest that the **Levy for Health and Post-Secondary Education** impacts significantly less heavily on a number of particularly vulnerable areas in the Manitoba economy than would a major sales tax increase. The illustrations also suggest that the **Levy for Health and Post-Secondary Education** assures a more fair and balanced contribution to the costs of health and education than the sales tax increase option.

II.

A NEIGHBOURHOOD HARDWARE STORE	
Annual Income (Sales)	\$500,000
Annual Compensation Costs	\$60,000
Sales Tax	\$10,000
1.5% Levy for Health and Post-Secondary Education	\$900
The Levy for Health and Post-Secondary Education represents about one-eleventh of the sales tax option.	

A BANK	
Annual Income	\$500,000
Annual Compensation Costs	\$55,000
2% Sales Tax	NIL
1.5% Levy for Health and Post-Secondary Education	\$825
The Levy for Health and Post-Secondary Education ensures a contribution from this sector.	

IV.

A BUILDING CONTRACTOR	
Annual Income	\$500,000
Annual Compensation Costs	\$120,000
Annual Building Material Purchases	\$305,000
Sales Tax	\$6,100
1.5% Levy for Health and Post-Secondary Education	\$1,800
The Levy for Health and Post-Secondary Education represents under one-third of the sales tax option.	

A LAW OFFICE	
Annual Income	\$500,000
Annual Compensation Costs*	\$193,000
2% Sales Tax	NIL
1.5% Levy for Health and Post-Secondary Education	\$2,895
The Levy for Health and Post-Secondary Education ensures a contribution from this sector.	
*Ratio based on "Engineering and Scientific Services".	

V.

A FOOD STORE	
Annual Income	\$500,000
Annual Compensation Costs	\$48,000
2% Sales Tax*	\$1,000
1.5% Levy for Health and Post-Secondary Education	\$720
The Levy for Health and Post-Secondary Education represents less than three-quarters of the sales tax option.	
*Assumes 10% of sales are taxable, based on sales tax records.	

VI.

AN ADVERTISING COMPANY	
Annual Income	\$500,000
Annual Compensation Costs	\$131,000
2% Sales Tax	NIL
1.5% Levy for Health and Post-Secondary Education	\$1,965
The Levy for Health and Post-Secondary Education ensures a contribution from this sector.	

VII.

A HOTEL	
Annual Income (Rentals)	\$500,000
Annual Compensation Costs	\$140,000
2% Sales Tax	\$10,000
1.5% Levy for Health and Post-Secondary Education	\$2,100
The Levy for Health and Post-Secondary Education represents about one-fifth of the sales tax increase option.	

VIII.

A FEDERAL GOVERNMENT OFFICE	
Annual Income	N/A
Annual Compensation Costs	\$500,000
2% Sales Tax	NIL
1.5% Levy for Health and Post-Secondary Education	\$7,500
The Levy for Health and Post-Secondary Education ensures a contribution from this sector.	

IX.

A MOTOR VEHICLE DEALERSHIP	
Annual Income (Sales)	\$500,000
Annual Compensation Costs	\$36,000
2% Sales Tax	\$10,000
1.5% Levy for Health and Post-Secondary Education	\$540
The Levy for Health and Post-Secondary Education represents about one-nineteenth of the sales tax option.	

SUMMARY - ADVANTAGES OF LEVY FOR HEALTH AND POST-SECONDARY EDUCATION

After considering all the above factors, the Government opted for the **Levy for Health and Post-Secondary Education**. The most important factors influencing this decision were:

1. the desire to spread the burden as fairly as possible over all sectors of the provincial economy, thereby reducing the potential adverse impact on certain sectors.
2. the desire not to impose additional burdens on low and moderate income Manitobans.
3. the recognition that the Levy is relatively minor for most businesses, amounting to the equivalent of only 1.5% of the total compensation paid to employees.
4. the recognition that the impact of the Levy is cushioned in a major way by virtue of its deductibility for income tax purposes.
5. the desire to ensure an equitable contribution from those sectors of the Manitoba economy which would be largely unaffected through a sales tax increase.
6. the potential for offsetting revenues, direct and indirect, from the federal government.
7. the fundamental equity of the Levy - since the provision of high quality health and education services provides both an economic and social benefit and the value of healthy and well-qualified employees is recognized by employers in wage and salary payments, the **Levy for Health and Post-Secondary Education** assures a contribution from all employers commensurate with their measurement of the value received.

TIMING AND ADMINISTRATION

The Manitoba **Levy for Health and Post-Secondary Education** will take effect on July 1, 1982 for most Manitoba employers. The only exception will be for local governments - municipalities and school divisions - whose revenue raising decisions for 1982 are already finalized. School divisions and local governments will commence paying the Levy on January 1, 1983.

Since the **Levy for Health and Post-Secondary Education** is a new Levy, it will take some time for administrative arrangements to be completed. Current intentions are to collect the Levy proceeds for July, August and September in lump sum remittances in October. Thereafter, remittances will be required on a monthly basis, commencing with the October remittance on or before November 15.

IMPACT ON MANITOBA

Any major revenue increases have the effect of increasing the costs facing Manitobans. However, the funds raised through the **Levy for Health and Post-Secondary Education** will be fully expended on these priority areas, thereby contributing directly to the maintenance and enhancement of the quality of life in our Province.

It is the Government's intention to review its mechanisms for financial assistance to local government prior to the next Budget. Local governments, school divisions as well as municipalities, may rest assured that the Province will provide increases in direct support in excess of their payments under this Levy before 1983 property tax mill rates are established.

The Province will also safeguard against the potential negative effects of this Levy on businesses experiencing significant financial difficulty by rebating the costs of the Levy for all businesses eligible for assistance under the Manitoba Interest Rate Relief Program.

The revenue raising decisions were carefully and prudently selected so as not to place an undue burden on any individual sector. The competitive position of businesses in Manitoba has been protected to the maximum extent possible, as illustrated in the following interprovincial comparison of major levies.

INTERPROVINCIAL COMPARISON - SELECTED LEVIES

	<u>Nfld.</u>	<u>P.E.I.</u>	<u>N.S.</u>	<u>N.B.</u>	<u>Que.</u>	<u>Ont.</u>	<u>Man.</u>	<u>Sask.</u>	<u>Alta.</u>	<u>B.C.</u>
Personal Income of Federal Basic Tax)	58.0	52.5	56.5	55.5	*	48	54	51	38.5	44
es (%)	11	10	10	8	8	7	5	5	-	6
poration come all (%)	12	10	10	9	3	10	10	10	5	8
rg (%)	15	10	15	14	8	14	15	14	11	16
oline: itre	8.5	8.9	7.8	5.8	13.0	6.6	6.4	-	-	6.16
sel: itre	10.1	11.1	7.5	8.1	12.6	8.5	7.3	-	-	6.60
poration pital Rate (%)	-	-	-	-	0.45	0.30	0.20	0.30	-	0.20
emption (\$)	-	-	-	-	Nil	Nil	\$1M	\$10M	-	\$1M
loyer alth/Education vy (% of mpensation id)										
15,000	-	-	-	-	3.0	3.68 ¹	1.5	-	1.52 ¹	2.56 ¹
20,000	-	-	-	-	3.0	2.76 ¹	1.5	-	1.14 ¹	1.92 ¹
alth/Medical remiums dividuals	-	-	-	-	-	\$276 \$552	-	-	\$114 \$228	\$180 \$384

Quebec levies its tax directly against taxable income.

Assumes employer pays family premium structure on behalf of employee.

E: The above comparisons do not reflect 1982 Budgets for Newfoundland, Quebec, Ontario and Saskatchewan.

Implementation of the **Levy for Health and Post-Secondary Education** will also mean important continuing benefits as well as significant new benefits for Manitoba.

- ° Manitobans will be assured of continuing high quality health care and educational opportunities, notwithstanding the federal cutbacks.
- ° The sales tax will be maintained at a relatively favourable and moderate rate of 5%, providing significant benefits to all Manitobans and substantial protection of Manitoba markets for the business community.
- ° There will be no general personal and corporation income tax increases.
- ° Major portions of the **Levy for Health and Post-Secondary Education** will be paid by the federal government in the form of reduced income tax payments, thereby cushioning the actual costs borne by Manitoba taxpayers.
- ° Federal direct payments under the **Levy for Health and Post-Secondary Education** will further reduce the net revenue requirement to be met by Manitoba taxpayers.
- ° Benefits for small business will be increased substantially:
 - The corporation income tax rate for small businesses will be reduced to 10%.
 - The small business corporation capital tax exemption will be increased by one-third to \$1 million.
 - All unincorporated businesses will remain exempt from the corporation capital tax.
 - The provision of authority for Venture Capital Incentives to assist in the mobilization of capital as well as entrepreneurial and managerial expertise for promising and innovative small and medium size business, primarily in manufacturing and processing.

Appendix III.C

THE MANITOBA SURTAX ON HIGHER INCOMES

A special surtax will apply to Manitobans with higher incomes effective with the 1982 taxation year. In part, the purpose of the surtax is to restore a reasonable measure of equity to the personal income tax structure in light of the federal government's decision to reduce significantly the maximum marginal personal income tax rates on higher income taxpayers.

Since Manitoba's personal income tax is levied at a flat percentage of basic federal tax, the federal changes would apply automatically to provincial income taxes. In total, the federal changes have the effect of reducing the maximum marginal income tax rate (federal and provincial combined) from 66.22% in 1981 to 52.36% in 1982. At most, the Manitoba surtax will add 3.672% to the top marginal income tax rate. As a result, the top marginal income tax rate in Manitoba will rise to 56.032% in 1982, but remain over 10 percentage points lower than in 1981.

The Manitoba surtax calculation is 20% of provincial income tax payable on taxable income in excess of \$25,000. The surtax will not apply to single Manitobans with total incomes under \$29,730, to married taxpayers claiming a dependent spouse with total incomes under \$32,840 and to married taxfilers with a dependent spouse and two children with total incomes under \$34,180. It is estimated that 90% of Manitoba taxfilers will not be affected by the surtax.

Illustrative tables showing the effects of the surtax on various typical taxpayers, as well as the overall change in their income tax payments between 1981 and 1982, are attached. The tables do not take into account the many optional deductions and tax shelters typically available to higher income taxfilers and may therefore overstate the taxes actually paid. Nonetheless, they are useful as a general indication of the effects of the surtax.

The tables show that:

1. Manitoba income taxes payable by single taxfilers with total incomes up to at least \$40,000 will be smaller in 1982 than in 1981.
2. Manitoba income taxes payable by married taxfilers (claiming a dependent spouse) with total incomes up to at least \$50,000 will be smaller in 1982 than in 1981.
3. Total income taxes payable (federal and provincial combined) will in all cases be smaller in 1982 than in 1981.

APPENDIX IV

RECENT STATEMENTS ON
FEDERAL FISCAL ARRANGEMENTS CUTBACKS

**Honourable Victor Schroeder
Minister of Finance
Government of Manitoba**

**Notes for a Submission to the
Standing Committee on Finance,
Trade and Economic Affairs**

Ottawa: April 1, 1982

Mr. Chairman, Members of the Committee:

I very much appreciate your courtesy in permitting me to appear before you at this time.

My purpose in coming to Ottawa is not to talk at length about our government's general concerns about Bill C-97. You have already heard a great deal about E.P.F., for example, from other witnesses. In addition, Manitoba has put forward a number of detailed position statements on the fiscal arrangements, both on an individual basis, and in conjunction with other provinces.

Instead, I hope to acquaint your Committee, as best I can, with our special concerns about Bill C-97 and particularly the negative effects for Manitoba of the five-province average standard proposed for the new equalization formula.

Our government has emphasized on a number of occasions that we believe the five-province standard — the so-called "representative average standard" — is inconsistent with the equalization principle which is soon to become a permanent part of the Canadian Constitution. The constitutional resolution states that:

"Parliament and the Government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."

For Manitoba, at least, the five-province standard formula will represent a move away from this objective, rather than closer to it. Even with the addition of the transitional adjustments provided for in the legislation — adjustments which we have welcomed — we estimate that equalization payments to our province over the next five years will fall close to \$600 million short of the levels that would have applied under the previous arrangements based on the full ten-province national average standard.

**EQUALIZATION ENTITLEMENTS FOR MANITOBA
1982-83 — 1986-87**

**Current 10-Province National Average Standard
vs**

Proposed 5-Province Average Standard

	Current Formula 10-Province Average	Entitlements (\$ Millions) Proposed Formula 5-Province Average	Loss Under 5-Province Average
1982-83	452	431*	-21
1983-84	535	457*	-78
1984-85	594	470*	-124
1985-86	657	488	-169
1986-87	728	538	-190
5-Years	2,966	2,384	-582

* Includes transitional adjustments. 5-Year loss in absence of transitional adjustments would be \$165 million more or -\$747 million.

The primary technical reason for this shortfall is the different treatment of resource revenues under the new formula, but my purpose here is not to deal so much with the technical reasons as with the "bottom line" result.

Over the last five years, the Manitoba economy has performed well below the national average, and a number of indicators, such as real growth, job creation and investment show our performance to have been the worst of any province.

**ECONOMIC INDICATORS BY PROVINCE
1976 TO 1981**

	Real Domestic Product	Employment (Percentage Change)	Investment
Newfoundland	10.5	19.1	38.8
Prince Edward Island	9.9	14.3	56.7
Nova Scotia	13.0	13.0	86.4
New Brunswick	7.7	15.9	28.7
Quebec	11.4	9.3	43.1
Ontario	8.6	14.8	63.4
Manitoba	4.3	8.5	25.9
Saskatchewan	10.0	14.3	90.1
Alberta	36.6	30.6	145.1
British Columbia	22.8	22.3	125.7
Canada	13.7	15.3	79.9

To a significant degree, those figures help explain why we experienced comparatively rapid growth in equalization entitlements over the last five years.

However, the new equalization formula would, in effect, ignore this deterioration in our economic position and, even with the currently-proposed transitional adjustments, result in a significant drop-off in our share of total equalization payments. According to our calculations, we would experience nearly a 2 percentage point drop in our share of total payments on average over the next five years compared to the last five — from close to 10% to around 8%.

**PERCENTAGE SHARES OF EQUALIZATION PAYMENTS
5-Year Averages**

	1977-78— 1981-82	1982-83— 1986-87	Percentage Point Change
Newfoundland	10.6	11.2	+0.6
Prince Edward Island	2.5	2.7	+0.2
Nova Scotia	12.8	13.3	+0.5
New Brunswick	10.2	10.6	+0.4
Quebec	52.7	54.1	+1.4
Manitoba	9.8	8.1*	-1.7
Saskatchewan	1.5	0.0	-1.5
Total	100.0	100.0	—

* Percent for Manitoba would be 7.6% without transitional adjustments and 9.1% if current (1977-78 — 1981-82) arrangements were extended.

Every other equalization recipient province would gain except Saskatchewan, which would cease to have any entitlement whatsoever under the new formula.

Another way of looking at the differences in the effects of the new formula on the various provinces is to consider percentage growth rates over the next five years.

Federal estimates indicate that between 1981-82 and 1986-87, there will be an average increase in equalization entitlements for all six recipient provinces of close to 70%. However, for the Atlantic Provinces, the growth rates will all be in excess of 80%, and for Quebec, the increase will be around 66%. For Manitoba, however, the percentage will be barely half the national average — around 37.2%.

**PROJECTED EQUALIZATION GROWTH RATES — BY PROVINCE
NEW ARRANGEMENTS
1981-82 — 1986-87**

	% Increase
Newfoundland	85.4
Prince Edward Island	83.5
Nova Scotia	85.8
New Brunswick	81.9
Quebec	66.1
Manitoba	37.2
Average	69.8

This uneven impact is particularly troublesome for our province because it affects us at a time when we are experiencing extremely serious budgetary pressures. We inherited a record deficit from our predecessors which is now estimated at around \$265 million for 1981-82. And, that deficit is based on an expenditure total which, in our view, was not adequate to sustain essential public services at appropriate standards.

Now, in part because of the cutbacks which would result from Bill C-97, we face a substantially larger potential deficit for the year ahead.

However, we have delayed final decisions on our Budget for the coming year because we continue to hope that some further adjustments will be made in the new fiscal arrangements to take Manitoba's particular situation into account.

I should emphasize, again, that we recognize that the Government of Canada has made an effort to reduce the negative impact of the new equalization formula on Manitoba through the transitional provisions now in the Bill. Quite simply, though, we do not believe those arrangements go far enough toward correcting for what we regard as an unfair — and, we believe, unintended — result.

Our calculations show that if our equalization payments were to grow at even the average for all recipient provinces over the next five years, payments to Manitoba would be some \$371 million higher than presently forecast. And, if our payments were to grow at only the second lowest rate, payments to Manitoba would be some \$292 million more than current forecasts.

**EQUALIZATION — MANITOBA
PAYMENTS WITH ALTERNATIVE GROWTH RATES**

(\$ Millions)

	5-Province Average Current Forecast*	%	Payments If Manitoba Received 2nd Lowest Per Cent Increase		%	Payments If Manitoba Received Average Growth	
			Total	Gain		Total	Gain
1981-82	392						
1982-83	431	10.7	434	3	13.6	445	14
1983-84	457	10.7	480	23	11.3	495	38
1984-85	470	10.7	531	61	10.5	547	77
1985-86	488	10.3	586	98	10.3	603	115
1986-87	538	10.1	645	107	10.3	665	127
				<u>292</u>			<u>371</u>

* These forecasts represent a \$582 million shortfall from the current formula.

In our view, those figures speak for themselves . . . and underline the degree to which our province would be affected adversely and inequitably under the new arrangements.

At this stage, it is probably inappropriate to argue for an entirely new formula, although I believe it is quite possible that, given adequate time, the federal government and the provinces could have developed a set of proposals which would not have had the results I have described for Manitoba. Of course, our preference would have been to extend the current arrangements until such a formula could be found. We joined with the other provinces in urging that kind of solution and then, at the First Ministers' Conference, in proposing a compromise alternative — extension of the current arrangements with a 12% "cap". While we have indicated that the five-province average standard appears to us to be superior to the single province Ontario standard which was proposed in the November 12th Budget, we have emphasized repeatedly that we do not believe there has been sufficient time for an adequate analysis of the implications of these or other alternatives.

Now, however, it appears that the most realistic solution from our point of view would be a revised set of transitional adjustment arrangements for Manitoba — a set of arrangements which would at least ensure that our province's equalization entitlement over the next five years would grow at a rate which is no worse than that of the province with the second-lowest growth rate.

That implies a payment increment in the range of some \$290-\$300 million for the period — an adjustment which I believe is fully justifiable and reasonable in light of the circumstances I have described.

I would hope that the Members of this Committee would see fit to consider recommending such a change.

Thank you very much for your attention. I will be pleased to try to answer any questions you may have.

**Statement on Federal Proposals on Funding
for Health, Post-Secondary Education
and Equalization**

**Honourable Victor Schroeder
Minister of Finance**

**Tabled in the 32nd Legislature,
Province of Manitoba,
First Session on March 22, 1982**

Mr. Speaker:

I have a statement that I would like to make to the House. Mr. Speaker, on Friday, March 19th, the federal government distributed copies of the fiscal arrangements legislation which it will present for Second Reading in the House of Commons early this week.

The most important provisions of the new legislation are: first of all, replacement of the current ten-province national average formula for calculating equalization payments with a new formula which uses the average taxing capacities of only five of the ten provinces as the standard for determining payments; and secondly, the elimination of the so-called revenue guarantee component from federal established programs financing payments for health care and post-secondary education.

The E.P.F. cutback was consistent with the announcement which the federal Minister of Finance made in his Budget in November. The equalization formula change, however, represented a departure from the November Budget proposal. In the Budget the federal government had suggested using a single province, Ontario, as the standard for calculating equalization and it wasn't until early February at the First Ministers' Conference on the Economy that Ottawa indicated it might be prepared to move away from that position. However, its intention to introduce legislation to provide for a five-province standard was not confirmed until Friday. Similarly, it wasn't until Friday that we received confirmation that the federal legislation would contain provisions to authorize certain special measures to assist our province and some others. Firstly, a transitional equalization adjustment payment for the first three years of the new arrangements and, secondly, population recovery adjustment payments which represent cancellation of certain prior year equalization adjustments arising out of the 1981 census figures.

While we commend the federal government for the adjustments, our calculations indicate that Manitoba still faces the largest loss in relative terms of any province over the next five years. We now estimate that compared to an extension of the present arrangements, the cutbacks for Manitoba will total \$62.9 million in 1982-83; \$122.3 million in 1983-84; \$172.4 million in 1984-85; \$223.1 million in 1985-86; and \$248.6 million in 1986-87; for a total over the five-year period of \$828.3 million. These figures exclude the effect of so-called income tax offsets resulting from the tax changes introduced in the November Budget.

The net figure for Manitoba for the same five-year period, taking tax offsets into account, is \$719.3 million. On the basis of that net figure, we still face a five-year loss equivalent to about \$2,800 for an average family of four. While this is down from the \$3,600 originally forecast, it is still more than double the national average reduction of \$1,200 and well ahead of the province with the next largest loss, Quebec, at \$2,300.00. Estimates for all provinces are included in a background paper which I have tabled along with the statement I am making. It is important to emphasize that these estimates take into account the transitional equalization adjustment payments provided for in the federal legislation.

As Mr. MacEachen indicated in his statement in Winnipeg on Saturday, these adjustments are now estimated to total \$165 million for Manitoba over the next three years; \$82 million in 1982-83; \$56 million in 1983-84; and \$27 million in 1984-85. Those figures are substantial and welcome, but it must be remembered that they are as large as they are because the basic payments onto which they are being added are comparatively low. For example, the federal government is now projecting our 1982-83 equalization entitlement including the transitional adjustment at \$431 million. However, without the \$82 million transitional adjustment payment, our basic entitlement under the five-province standard formula would be about \$349 million. That figure can be compared to the most recent estimate of our entitlement for the current year 1981-82 under the present system of \$392 million and the most recent estimate of our entitlement for 1982-83 under the present system of \$452 million.

Over the last few weeks our government has indicated to the Government of Canada that while we prefer the five-province standard to the single province Ontario standard as a basis for calculating equalization, we felt neither was consistent with the principle of equalization, which is to become a permanent part of the Canadian Constitution.

In our view, the formula which presently comes closest to that principle is the full ten-province national average formula which is now in effect and we emphasize strongly that our first preference was to see that formula continued.

I indicated to the House on Friday that there was some possibility that I might meet over the weekend with the federal Minister of Finance when he was in Winnipeg. Mr. MacEachen's schedule did not permit such a meeting, but it now appears as if we will be able to arrange a meeting in Ottawa in the near future. At that meeting I intend to urge the federal Minister once again to modify his legislative proposals in order to ensure that Manitobans receive equitable treatment. I remain optimistic that he will give favourable consideration to our position. I will keep the members informed of further developments in the negotiations.

**Federal Proposals for Cutbacks in Funding for
Health, Post-Secondary Education
and Equalization**

Financial Implications Summary

Background

The federal government distributed legislation to amend the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act on Friday, March 19, 1982.

While the federal government did not present full and complete side-by-side estimates of the impact of its proposals on the provinces, Manitoba has prepared its own estimates of the impact of the federal legislation.

These estimates — which should be regarded as tentative, pending further technical consultations with the federal government — take into account the population adjustments associated with the 1981 Census and a number of revised revenue estimates and revenue adjustments which are incorporated in the federal material on its proposals.

Under the federal proposals, Manitoba faces total federal cutbacks of about \$63 million in 1982-83 on equalization and Established Programs Financing.

This latest estimate of the overall cutbacks facing Manitoba in the coming year is considerably lower than the estimated \$151 million in cutbacks facing the Province on the eve of the First Ministers' Conference last month, in part because of the population adjustments, in part due to modifications in the federal offer and in part due to revised information on various revenue sources.

The federal Bill also contained provision to forego population-related equalization recoveries for 1980-81 and 1981-82. These are estimated at \$31 million for Manitoba. Had the federal government not agreed to forego these adjustments, Manitoba's total loss in 1982-83 could have been about \$94 million, according to the latest revised information.

For the longer term, current estimates indicate a total cutback to our Province in excess of \$828.3 million over the next five years and net losses of \$719.3 million when the federal Budget-related provincial tax increases are taken into account. Although the situation has improved fairly substantially relative to the total cutback of \$1,051 million and the net loss of \$942 million Manitoba was facing, given the best information available on the eve of last month's First Ministers' Conference, the reductions are still severe. Under the revised federal proposals, Manitoba faces net losses amounting to \$2,786 per family of four over the next five years, over double the national average loss and the highest of any province.

FEDERAL CUTBACKS/PROVINCIAL COSTS UNDER FEDERAL FISCAL ARRANGEMENTS PROPOALS

(\$ Millions)

1982-83

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
A. FEDERAL CUTBACKS											
• E.P.F. Revenue Guarantee, etc.	19.5	4.1	28.7	23.7	211.3	288.1	34.2	32.8	193.1	121.5	960.8
• E.P.F. Cash Outback due to — Interaction with equalization proposal	0.4	0.1	0.7	0.5	3.2	—	0.7	—	—	—	5.6
— Budget Tax Changes	1.0	—	3.0	2.0	29.0	36.0	7.0	10.0	37.0	21.0	146.0
• Equalization Cutbacks	(20.0)	(6.0)	(17.0)	(8.0)	246.0	—	21.0	—	—	—	216.0
TOTAL FEDERAL CUTBACKS	0.9	(1.8)	15.4	18.2	489.5	324.1	62.9	42.8	230.1	142.5	1,328.4
B. PROVINCIAL/PROGRAM COSTS											
Total Federal Cutbacks	0.9	(1.8)	15.4	18.2	489.5	324.1	62.9	42.8	230.1	142.5	1,328.4
Less: Increased Value of Tax Transfer	1.0	—	3.0	2.0	29.0	36.0	7.0	10.0	37.0	21.0	146.0
Provincial Transfer Payment Reductions	(0.1)	(1.8)	12.4	16.2	460.5	288.1	55.9	32.8	193.1	121.5	1,182.4
Provincial Tax Increases	6.0	1.0	18.0	9.0	77.0	171.0	24.0	28.0	90.0	82.0	507.0
Net Impact on Provincial Finances	(6.1)	(2.8)	(5.6)	7.2	383.5	117.1	31.9	4.8	103.1	39.5	675.4
COST PER FAMILY OF FOUR (\$)	(43)	(91)	(26)	41	238	54	124	20	180	56	110

FEDERAL CUTBACKS/PROVINCIAL COSTS UNDER FEDERAL FISCAL ARRANGEMENTS PROPOSALS (\$ Millions)

1983-84

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
A. FEDERAL CUTBACKS											
• E.P.F. Revenue Guarantee, etc.	22.0	4.6	32.3	26.7	237.5	324.7	38.3	37.1	211.1	135.0	1,073.7
• E.P.F. Cash Outback due to — Interaction with equalization proposal — Budget Tax Changes	0.6 1.0	0.1 —	1.0 2.0	0.7 1.0	4.8 12.0	— 14.0	1.0 5.0	— 7.0	— 25.0	— 13.0	5.6 79.0
• Equalization Cutbacks	(11.0)	(5.0)	(5.0)	3.0	482.0	—	78.0	0	—	—	542.0
TOTAL FEDERAL CUTBACKS	12.6	(0.3)	30.3	31.4	736.3	338.7	122.3	44.1	236.1	148.0	1,700.3
B. PROVINCIAL/PROGRAM COSTS											
Total Federal Cutbacks	12.6	(0.3)	30.3	31.4	736.3	338.7	122.3	44.1	236.1	148.0	1,700.3
Less: Increased Value of Tax Transfer	1.0	0	2.0	1.0	12.0	14.0	5.0	7.0	25.0	13.0	79.0
Provincial Transfer Payment Reductions	11.6	(0.3)	28.3	30.4	724.3	324.7	117.3	37.1	211.1	135.0	1,621.3
Provincial Tax Increases	5.0	1.0	16.0	8.0	39.0	135.0	20.0	22.0	74.0	70.0	389.0
Net Impact on Provincial Finances	5.6	(1.3)	12.3	22.4	685.3	189.7	97.3	15.1	137.1	65.0	1,232.3
COST PER FAMILY OF FOUR (\$)	39	(42)	57	127	423	87	378	61	232	91	199

FEDERAL CUTBACKS/PROVINCIAL COSTS UNDER FEDERAL FISCAL ARRANGEMENTS PROPOSALS
 (\$ Millions)

1984-85

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
A. FEDERAL CUTBACKS											
• E.P.F. Revenue Guarantee, etc.	25.1	5.3	36.8	30.5	269.8	369.6	43.4	42.4	223.7	135.9	1,187.0
• E.P.F. Cash Outback due to — Interaction with — equalization proposal — Budget Tax Changes	0.6 —	0.1 —	1.0 2.0	0.8 1.0	5.0 3.0	— 3.0	1.0 4.0	— 6.0	— 20.0	— 10.0	8.6 48.0
• Equalization Outbacks	(6.0)	(7.0)	(8.0)	3.0	532.0	—	124.0	18.0	—	—	657.0
TOTAL FEDERAL CUTBACKS	19.7	(1.6)	31.8	35.3	809.8	372.6	172.4	66.4	243.7	145.9	1,900.6
B. PROVINCIAL/PROGRAM COSTS											
Total Federal Outbacks	19.7	(1.6)	31.8	35.3	809.8	372.6	172.4	66.4	243.7	145.9	1,900.6
Less: Increased Value of Tax Transfer	0	0	2.0	1.0	3.0	3.0	4.0	6.0	20.0	10.0	48.0
Provincial Transfer Payment Reductions	19.7	(1.6)	29.8	34.3	806.8	369.6	168.4	60.4	223.7	135.9	1,852.6
Provincial Tax Increases	4.0	1.0	13.0	6.0	11.0	72.0	15.0	19.0	53.0	50.0	242.0
Net Impact on Provincial Finances	15.7	(2.6)	16.8	28.3	795.8	297.6	153.4	41.4	170.7	85.9	1,610.6
COST PER FAMILY OF FOUR (\$)	108	(84)	77	159	489	135	595	166	280	117	257

FEDERAL CUTBACKS/PROVINCIAL COSTS UNDER FEDERAL FISCAL ARRANGEMENTS PROPOSALS
(\$ Millions)
1985-86

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Total
A. FEDERAL CUTBACKS											
• E.P.F. Revenue Guarantee, etc.	28.3	5.9	41.7	34.5	304.6	418.0	49.0	48.1	238.2	138.9	1,312.1
• E.P.F. Cash Outback due to — Interaction with equalization proposal — Budget Tax Changes	0.7 —	0.2 —	1.1 2.0	0.9 1.0	5.1 3.0	— 3.0	1.1 4.0	— 7.0	— 19.0	— 9.0	9.0 49.0
• Equalization Cutbacks	(4.0)	(7.0)	(10.0)	4.0	591.0	—	169.0	64.0	—	—	807.0
TOTAL FEDERAL CUTBACKS	25.0	(0.9)	34.8	40.4	903.7	421.0	223.1	119.1	257.2	147.9	2,177.1
B. PROVINCIAL/PROGRAM COSTS											
Total Federal Cutbacks	25.0	(0.9)	34.8	40.4	903.7	421.0	223.1	119.1	257.2	147.9	2,177.1
Less: Increased Value of Tax Transfer	0	0	2.0	1.0	3.0	3.0	4.0	7.0	19.0	9.0	49.0
Provincial Transfer Payment Reductions	25.0	(0.9)	32.8	39.4	900.7	418.0	219.1	112.1	238.2	138.9	2,128.1
Provincial Tax Increases	3.0	1.0	13.0	6.0	9.0	64.0	15.0	20.0	48.0	47.0	227.0
Net Impact on Provincial Finances	22.0	(1.9)	19.8	33.4	891.7	354.0	204.1	92.1	190.2	91.9	1,901.1
COST PER FAMILY OF FOUR (\$)	151	(61)	90	186	545	160	788	366	303	123	300



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